LEGISLATURE OF THE PROVINCE OF SASKATCHEWAN

SESSION 1939

SELECT SPECIAL COMMITTEE

ON

FARM IMPLEMENT PRICES AND DISTRIBUTION

Report

Adopted by the Legislative Assembly

March 27, 1939.

PRINTED BY ORDER OF THE LEGISLATURE

Regina
Thos. H. McConica, King's Printer
1939

see Page 21 mark up.

10-

LEGISLATURE OF THE PROVINCE OF SASKATCHEWAN

SESSION 1939

SELECT SPECIAL COMMITTEE

ON

S. Tronsdale Puslinch R1

FARM IMPLEMENT PRICES AND DISTRIBUTION

Report

ADOPTED BY THE LEGISLATIVE ASSEMBLY

MARCH 27, 1939.

PRINTED BY ORDER OF THE LEGISLATURE

REGINA
THOS. H. MCCONICA, King's Printer
1939

While the time at the disposal of your Committee has been limited, the material and evidence submitted to it has been subjected to as exhaustive and intensive a study as time and circumstances permitted.

Your Committee feels that its findings and recommendations are fully supported by the information placed before it, and respectfully requests that the same receive the careful consideration of the Assembly.

The Findings and Recommendations of your Committee are tabled herewith as a Sessional Paper, together with the Exhibits filed and certain material Evidence taken verbatim on Order of the Committee.

The Findings and Recommendations, together with certain Exhibits and Evidence of the said Special Committee, were thereupon laid on the Table.

(*Sessional Paper No. 124*)

(*Journals, Session 1939 — Friday, March 24, 1939.*)

CONCURRENCE

IN THE LEGISLATURE, MONDAY, MARCH 27, 1939:

The Order of the Day being called for taking into consideration the Final Report of the Select Special Committee on Farm Implement Prices and Distribution, it was moved by Mr. Ross, seconded by Mr. Herman:

That the Final Report of the Select Special Committee on Farm Implement Prices and Distribution, be now concurred in.

A debate arising, and the question being put, it was agreed to.

(*Journals, Session 1939 — Monday, March 27, 1939.*)

Attest:

G. A. MANTLE,
Clerk of the Legislative Assembly.

W. G. ROSS,
Chairman of Committee

SESSIONAL PAPER No. 124

FINDINGS AND RECOMMENDATIONS

OF

Select Special Committee

ON

Farm Implement Prices & Distribution

SECTION 1

Inquiry

On February 3, 1939, the Honourable Mr. Patterson moved in the Legislature of this Province

"That the following be appointed a Select Special Committee to enquire into the cost, sale and distribution of farm implements and parts and repairs therefor within the Province of Saskatchewan, and all other questions incident to the buying and selling thereof; to report to this Assembly during the present Session, with such recommendations as may appear advisable; and to be empowered to send for persons, papers and records and examine witnesses under oath:

Messieurs Ross (Chairman), Brockelbank, Danielson, Demers, Donaldson, Hantelman, Herman, C. W. Johnson, Knowles, Laing, Pedersen, Procter, Stewart, Taggart, Valleau, and Williams."

The motion was unanimously adopted and the Select Special Committee thereupon appointed.

The reason that undoubtedly moved the Legislature in appointing such a committee was the seriousness of the problem to the farmers of this Province, and a conviction that some method must be found whereby prices of farm implements would be substantially reduced.

The committee had in mind the exhaustive study of the same problem made by Committees of the House of Commons at Ottawa, in 1936 and 1937—hereinafter referred to as the Ottawa Committee. The evidence taken before such Committees and the reports thereon were filed with the Committee. The Committee relied on the factual data collected by the Ottawa Committee of 1937, and only endeavoured, where necessary, to bring the essential facts up to date. It was particularly concerned to find out what recommendations of the Ottawa Committee had been carried out and, if not, the reason therefor.

In addition, the Committee filed as an Exhibit the report of the Federal Trade Commission of the United States, which recently completed an inquiry into the same matter in the United States, (hereinafter referred to as the United States Inquiry) and finds that the conclusions reached by the United States Inquiry coincided in all important particulars with those of the Ottawa Committee.

The Committee desires to make its report as concise as possible and does not intend to repeat, except where necessary, the findings of the Ottawa and United States reports. It, therefore, recommends to those persons interested in these facts a perusal of the two reports referred to.

SECTION 2

Agriculture

This Committee feels it unnecessary to recite again the difficulties, existing in progressive intensity over a long period, which have been faced by the farmers of Western Canada and particularly of this Province of Saskatchewan, and which have reduced those engaged in agriculture and those dependent thereon to a very serious, if not desperate, plight.

The Committee wishes to point out the present intensity of the problem of finding markets for the surplus of farm products in Saskatchewan, and of securing therefor a price that will at least permit the farmer to survive. The very great concern being shown by the Federal and Provincial Governments in these matters is indicative of the plight in which the farmer of Western Canada finds himself at the present time.

Moreover, it is apparent to this Committee that, even if markets were found and such prices established, the farmer will be faced with a very real problem in replenishing his requirements of farm implements so decidedly in arrears as a result of the long period of economic depression.

Dr. J. F. Booth, Chief of the Economics Branch of the Dominion Department of Agriculture, in his submission to this Committee, estimated the backlog of farm implement requirements in Canada at the end of 1937, at 239½ millions of dollars. Obviously this would not have decreased by any appreciable amount in 1938.

Because of the fact that Western Canada normally absorbs 75% of all farm implement consumption in Canada and, further, because of the fact that, through a combination of circumstances, the Western farmer has been least able, since 1930, to maintain his normal purchases of farm implements, the Committee is of the opinion that Saskatchewan, provincially the largest purchaser of these in Canada, must have a backlog in the neighbourhood of from 50 to 75 millions. The Committee is informed that Professor Hope, of the University of Saskatchewan, finds this estimate much too low.

Dr. Booth points out the necessity of agriculture in Canada being properly equipped with the implements of production if it is to compete with agriculture in other parts of the world.

The Companies in the industry admit that a very substantial backlog of requirements exists. The Committee, therefore, is not concerned with the exact amount, but with the admitted fact that the problem of taking care of his normal annual purchases and catching up with his backlog is a very serious one indeed to the farmer of Saskatchewan.

To put it bluntly, the Committee feels it is an absolute necessity that the prices of farm implements and of repair parts be substantially reduced.

The Committee, therefore, planned its inquiry to find out

(1) What solution, if any, was offered by the farm implement industry.

(2) If no solution was forthcoming from the industry, what other avenues were open to achieve the desired objective.

This statement of the purpose of this Committee should be kept in mind in considering this report.

SECTION 3

The Companies

Having in mind the limited time at the disposal of the Committee, it was decided to request executive officers of the following Companies to appear before the Committee:—

Deere and Company, Moline, Illinois.

International Harvester Company of Canada, Ltd., Hamilton, Canada, and Chicago, Illinois.

Massey Harris Company, Limited, Toronto, Ontario.

It was felt that the Massey Harris Company Limited was typical of a wholly-owned Canadian Company, the International Harvester Company of Canada Limited, of a subsidiary of an United States Company manufacturing in Canada, and Deere and Company of a Company which, until just recently when it has increased the production at its Welland, Ontario, plant, manufactured the large percentage of its Canadian requirements in the United States and marketed these in Canada. It was also kept in mind that the International Harvester Company and Deere and Company Canadian prices were determined by Company officials at Chicago and Moline respectively, and that these two Companies were indicated in the Ottawa and United States Inquiries to be the largest and most important Companies in the industry in both Canada and the United States.

Certain factual information was asked of these Companies, and it was proposed that the representatives of all be before the Committee on the same date, so that a frank discussion of the problem with which the Committee was concerned could be had with these leading Companies in the industry.

The Committee also expressed to the Companies its desire to have the same officers, who appeared before the Ottawa Committee, appear here, as it was felt that these officers were those who shaped the policy of the Companies and determined the price structure for farm implements in Canada.

Unfortunately for the Committee's plans, the Massey Harris was the only one which appeared able to comply with the request of the Committee. The International Harvester Company of Canada Limited and Deere and Company indicated it was impossible for Executives of these Companies to be here at the time set by the Committee. In addition, the Committee requested Head Office officials of the Cockshutt Company Limited to appear, as this Company is a wholly-owned Canadian Company confining most of its operations to Canada. The Massey Harris Company Limited markets from 35 to 40% of its total sales in Canada and from 60 to 65% in other countries. The Committee wishes to express its appreciation to the Massey Harris Company Limited and the Cockshutt Company Limited for the co-operation extended by these Companies to the Committee.

The absence of the International Harvester Company officers and of the information asked for from this Company was particularly felt by the Committee in its work, as it was this Company which the Ottawa Committee found to be a "well organized, well financed and well managed manufacturer" in Canada. In addition, its constant method of cost accounting over a long period permitted it to be used as a "standard" with which to compare the other Companies.

Again having in mind the time limit the Committee selected the following "farm implements" as sufficiently "typical" for its purposes:—

8 ft. Binder fully equipped
One way Disc or Harrow plow
Tractor
Combine
Cream Separator
Repair parts.

The Ottawa Committee found, as a result of its exhaustive inquiry, that a binder was truly typical in all essentials of "small implements" generally. At Ottawa, the Companies agreed to place on the public record the breakdown into their constituent items of the manufacturing and distribution costs of a binder. This was so much referred to by members of the Committee that the International Harvester Company's figures are reprinted here.

INTERNATIONAL HARVESTER COMPANY OF CANADA LTD.

Schedule of Manufacturing Costs—8 Ft. Binder—Using an Average burden—1913, and 1919 to 1936 with Sales Realization Comparable Thereto

	Factory Cost Data						Sales Realization			
	Material	Labour	Total material and labour	Overhead or burden	Experimental work	Total cost	Price to the farmer (cash price Regina)	Commission	Freight	Net sales realization
1913	45.56	11.97	57.53	17.96	0.34	75.83	167.02	30.45	17.80	118.77
1919	94.83	24.85	119.68	37.27	1.01	157.96	261.00	34.00	22.33	204.67
1920	92.74	31.78	124.52	47.67	1.31	173.50	269.00	33.00	19.17	216.83
1921	112.12	31.65	143.77	47.47	1.29	192.53	326.00	44.00	26.00	256.00
1922	80.51	22.56	103.07	33.84	1.98	138.89	266.00	41.00	25.02	199.98
1923	80.54	21.85	102.39	32.77	1.15	136.31	274.00	47.00	25.02	201.98
1924	83.62	22.20	105.82	33.30	1.15	140.27	308.00	41.00	26.13	240.87
1925	80.47	22.57	103.04	33.85	1.73	138.62	283.00	40.50	25.02	217.48
1926	77.50	28.85	106.35	43.27	0.79	150.41	283.00	40.50	24.70	217.80
1927	75.42	26.22	101.64	39.33	0.63	141.60	283.00	40.50	24.70	217.80
1928	76.48	23.03	99.51	34.55	0.76	134.82	283.00	44.50	24.98	213.52
1929	75.60	24.81	100.41	37.22	0.91	138.54	283.00	44.50	25.42	213.08
1930	76.35	24.39	100.64	36.44	1.31	138.39	278.00	46.50	25.42	206.08
1931	81.50	27.09	108.59	40.64	3.88	153.11	278.00	46.50	25.42	206.08
1932	87.01	27.16	114.17	40.74	9.64	164.55	273.00	46.50	25.12	201.38
1933	79.35	20.65	100.00	30.98	2.50	133.48	263.00	44.50	25.12	193.38
1934	75.11	21.51	96.62	32.26	2.71	131.59	263.00	44.50	25.12	193.38
1935	70.56	20.48	91.04	30.72	1.56	123.32	263.00	44.50	25.87	192.63
1936	71.06	22.62	93.68	33.93	2.55	130.16	281.00	45.50	26.08	209.42

Note:—Burden is stated as a fixed percentage of direct labour in each year (150%).

The Committee regrets it is not possible to include the International Harvester Company's breakdown figures for 1937 and 1938 in the foregoing table, as this information has not been made available to the Committee. The Massey Harris Company Limited furnished a breakdown for these years, but, because of differences and changes in the method of computation, it was not considered sufficiently comparable to include in the table. The Massey Harris Company figures do indicate an increase in the cost of materials, cost of direct labour and of burden in these years. These increases suggested by the Massey Harris Company will be discussed later in this report.

Price Structures

Early in 1936, the Companies announced an increase of price in farm implements amounting to 4.4% as found by the Ottawa Committee. It was this particular increase, announced after a substantial reduction in the tariff from 25% to 12½%, that gave rise to the Ottawa Inquiry. Despite a further reduction in the tariff to 7½% and despite the findings of the Ottawa Committee that this increase was not justified and that the prices of farm implements had been, over the years 1913-1936, too high, despite, too, a definite finding that there was an excessive mark-up over cost on cream separators and repair parts, and that the prices of these should be particularly and substantially reduced, this Committee finds that none of these findings were given effect to, and that, in addition, further price increases occurred in 1937.

For the information of those interested, the following table is inserted to show these increases in the International Harvester Company of Canada Limited binder, Massey Harris Company Limited cream separators, and John Deere WD 30 tractor. The combine prices are not given as there has been such a drastic change in the design, size, capacity and type of this implement, since 1936, that price changes are of little value for comparative purposes without a clear knowledge of the above changes in the combine itself.

CASH PRICE, REGINA, SASKATCHEWAN

	1936	1937	1938	1939
Binder	$ 281.00	$ 295.00	$ 324.75	$ 324.75
Cream Separator, No. 7 (500-550)	108.50	108.50	115.50	115.50
Tractor—No. 116 Model D equipped Steel Wheels and 5" Spade lugs	1,215.00	1,255.00	1,265.00	1,210.00

Note:—The International Harvester Company states that the 1937 binders unequipped with improvements and remaining in stock can be purchased for $295.00 cash. These are no longer manufactured by the Company.

Note:—The above tractor has had no important changes made in the years referred to.

Repair Parts

The Committee was particularly concerned with the information obtained by it relating to sources of supply for repair parts and the prices which were paid therefor by the farmers of this Province.

The Ottawa Committee secured considerable information relative to this matter and, as already stated in this report, found that the Companies fixed the retail prices of repair parts at a mark-up of 60% of factory cost in excess of the mark-up on completed farm implements.

For the information of those interested, the Committee reproduces, below, a statement furnished by the auditors to the Royal Commission on Price Spreads and Mass Buying, 1934, showing the selling price of repair parts going into certain implements and the selling price of the completed implements.

COMPARISON OF SELLING PRICES OF REPAIR PARTS AND COMPLETED MACHINES

Description	Selling price completed machines	Selling price of all repair parts	Percentage of selling price of to completed machines
Manure Spreader	$164.00	$279.04	170.15
Gang Plow	58.50	80.17	137.04
Gang Plow	52.50	92.72	176.61
Gang Plow	132.50	208.94	157.69
Gang Plow	133.50	224.49	168.16
Walking Plow	19.75	26.90	136.20
Walking Plow	20.00	33.31	166.55
Scuffler	12.50	21.01	168.08
Mower	90.50	174.21	192.50
Mower	96.50	142.47	147.64
Mower	93.50	176.45	188.73
Disc Drill	259.00	419.51	161.97
Tiller Combine	326.50	493.49	151.14
Disc Harrow	63.00	87.08	138.22
Binder	256.00	473.53	184.97
Binder	262.00	592.49	226.12
Stiff Tooth Cultivator	146.00	261.42	179.05
	$2,186.25	$3,787.23	173.23

The Ottawa Committee then notes:—

"It will be noted that the Binder and Mower, both of which are heavy volume machines, carried the heaviest percentage increase in parts prices over completed machine prices. On the other hand, the Binder which shows the largest percentage increase (226.12 per cent) is not that of the Harvester Company. If the weighting of this machine be eliminated, the average of all machines shown on this table would be reduced to 166 per cent.

For purposes of rough computation, and to put upon the figures the interpretation most favourable to the company, it may be in-

ferred that a ratio of 160 to 100 would represent the selling price to the farmer of all parts of an average machine in terms of the cash price to the farmer of the same machine in its completed form."

The above table speaks for itself, and the Committee is strongly of the opinion that it indicates conclusively that the retail price of repair parts is excessively high and out of all proportion to the factory cost plus reasonable expenses of distribution plus a reasonable profit to the Company.

The Committee points out that, in these difficult times, the farmers of Saskatchewan, not being able to purchase new implements, must of necessity keep their old implements in a state of repair, and that the price of the repair parts which they require is of utmost importance in order that the farmers somehow may carry on their farming operations.

This is clearly indicated by the figures submitted to the Committee, which show that, in the extreme depression years, 1932-1933, and to a lesser degree until now, the total sales of farm implements decreased very substantially, but the sale of repair parts decreased relatively little. It is for this reason that the Committee wishes to emphasize the very great importance of the price structure at which these repair parts are sold to farmers in this Province.

The Committee attempted to examine other sources of supply for these repair parts. It found that, where independent jobbers such as Sears Roebuck and Montgomery Ward in the United States and T. Eaton Company, Simpsons, John East and Company, McLeod's Limited, and others are supplying certain repair parts at substantially reduced prices, the Companies meet this competition by lowering the price and the commission paid thereon.

Information was also submitted to the Committee that there are independent manufacturers of repair parts in the United States where certain repair parts can be purchased at greatly lowered prices.

However, it is noted that the independent jobbers do not, and are likely unable to, handle a complete line of repair parts. In addition, the Committee did not have sufficient information to pass judgment on the relative quality of the parts being offered by the line Companies and the independent manufacturers. The Companies suggested that the independent parts are not as good in quality. The independent jobbers are of the opinion that, in the great majority of cases, the parts are of like quality. In fact it was stated that some of the parts being marketed by the independent concerns are the same parts, produced in the same factory, as those being marketed by the farm implement industry.

The Committee is of the opinion that the University of Saskatchewan could perform a useful service if a testing system were maintained in the University, where, gradually, authoritative records could be built up to determine definitely the relative quality of the

so-called "spurious" or "bogus" parts. If the parts being marketed by the independent jobbers are of like quality, considerable saving could be made by efforts to encourage this particular competitive element in Saskatchewan.

The Committee pointed out to the Companies the advisability of the Companies securing a larger volume of production by selling these repair parts to independent jobbers at a price comparable to the amount which would have to be paid in the United States; but apparently the Companies cannot see their way clear to open up a Canadian source of supply to these independent jobbers.

This Committee joins with the Ottawa Committee in urging the Companies to recognize the excessive mark-up in repair parts prices, and the absolute necessity of materially reducing these prices.

Cream Separators

The Committee noted the apparent excessive mark-up over factory cost in cream separators, and is definitely of the opinion that this implement of thrift costs the Canadian consumer far too much.

It particularly wishes to call attention to the information contained in the Ottawa report in regard to retail prices of cream separators. It appears that a small cream separator (under 500 lbs. capacity) can be manufactured in Sweden by a Company allied with the De Laval Company doing business in Canada, and, after payment of freight (ocean and rail), duty, and excise tax, laid down at Peterboro, Ontario, for $17.65. These particular cream separators are sold at Winnipeg for an average price of $44.58. When it is remembered that the freight from Peterboro to Winnipeg is only $1.30, this Committee is of the opinion the above facts speak for themselves, and that the retail price to the Canadian farmer is completely out of line with manufacturing and distribution costs.

It is suggested by the farm implement companies that these particular separators are not as large nor as well equipped as some of the separators being marketed by the Companies. However, the Committee is of the opinion that, even though this were true, it is obvious that the manufacturing firms in Sweden could lay down a suitable larger machine, and completely equipped, at a price much lower than is suggested by the retail price in Canada.

The Committee is in thorough agreement with the Ottawa Committee that, in the light of this information, any barriers to importation of cream separators should be removed so as to give all Canadian farmers free access to any source of supply of reasonably priced and suitable cream separators.

In view of the later recommendations of this Committee to support the co-operative movement in this Province, the Committee

recommends to the co-operative group the study of the above facts and the possibility of finding in Sweden a satisfactory source of supply for cream separators.

Companies' Explanation of Price Increases

The explanation offered by the Companies is that the implements have been improved, the costs of materials and labour have gone up, and the financial results of the Companies have proved unsatisfactory. It is proposed to deal with each of these separately.

Improvements

The International Harvester Company of Canada Limited, furnished the Committee with the improvements that have taken place in a binder in the last two years. These are given below.

"1. *Enclosures at ten points*—

All gears, cams and vital working parts are enclosed and protected from dirt and trash.

2. *Pressure Lubrication*—

Bearings are equipped with hydraulic type fittings for quick grease gun lubrication.

3. *Tripod Reel Brace*—

Holds reel bracket firmly; provides better reel control. Seven and eight-foot binders equipped with arrangement for automatically keeping reel parallel with platform at all times.

4. *Frame Construction*—

Heavy steel frame construction with tripod and A-type bracings used throughout; eliminates twisting; provides strength without excessive weight.

5. *New Modernized Binding Attachment*—

Six enclosures protect vital working parts. Bearings equipped for quick grease gun lubrication. Improved McCormick-Deering type knotter—simple in construction, easy to adjust; ties accurately under wide variations of twine and crop conditions. *Packer arms have replaceable, two-piece malleable bearings with take-up shims.* Driving clutch is six-point, fully enclosed.

This binder also has, of course, the new oil bath transmission; new and heavier binding attachment frame; all castings or parts fitted with pressure lubrication—are all new type in order to equip with the new type lubrication. There are several other minor improvements, but the above are the most outstanding."

The International Harvester Company of Canada Limited, as already stated, has not furnished the Committee with a breakdown of factory costs in the years 1937 and 1938, and it is, therefore, impossible for the Committee to form an opinion as to the increase, if any, that has been added to the factory cost by such improvements.

In the Ottawa Inquiry, it was found to be incorrect that an improvement necessarily added to the factory cost. Improved plant production would tend to, and apparently does, absorb any added cost. For instance, in 1933, the Companies introduced an improved mower with oil bath gears, yet the breakdown of the factory cost showed that it cost less, in 1933, to manufacture a mower so improved than it did to manufacture one not so improved, in 1932. It is clear, therefore, that it is not safe to assume that, because an implement has been improved, it necessarily costs more to manufacture it.

The Committee suggests that consideration of the actual material or labour costs added by reason of these improvements would indicate that only a small portion of the increase in price would have been added to the cost of manufacturing. As a matter of fact, improvements in design and strength often result in lowered, rather than increased, cost of production.

Materials

At Ottawa in April, 1937, Companies indicated that, since late in 1936, steel prices had increased by approximately 23%. No statistics were available at that time to check this statement. The Ottawa Committee, assuming the increase to be as stated, found that the total steel purchases by the International Harvester Company of Canada Limited in the period 1926-1935, inclusive, amounted to approximately $10,000,000.00, or an annual average of $1,000,000.00. It, therefore, pointed out an increase of 23% would be an increased dollar outlay annually of an average of $230,000.00. This amount spread over the total manufacturing costs of all implements, while important, was not sufficient to justify the increases in price structure, even though offsetting factors were not taken into account.

This Committee had before it the necessary statistical information supplied by the Dominion Bureau of Statistics. The necessary table is inserted below:

(See next page)

INDEX NUMBERS OF WHOLESALE PRICES OF STEEL BARS, 1936-1938

(1929-100)

		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
						CANADA								
Mild Steel Merchant Bars, price per 100 lbs., carlots, f.o.b. plant	1936	93.7	93.7	93.7	93.7	93.7	93.7	93.7	93.7	93.7	93.7	93.7	100.0	94.3
	1937	100.0	104.1	112.4	112.4	112.4	112.4	112.4	112.4	112.4	112.4	112.4	112.4	110.7
	1938	112.4	112.4	112.4	112.4	112.4	112.4	106.2	106.2	106.2	106.2	106.2	106.2	109.4
						UNITED STATES								
Steel, Merchant Bars, Pittsburg, average price per 100 lbs.	1936	96.2	96.2	96.2	96.2	96.2	96.2	101.4	101.4	102.4	106.5	106.5	108.1	100.3
	1937	114.3	114.3	124.7	127.3	127.3	127.3	127.3	127.3	127.3	127.3	127.3	127.3	125.1
	1938	127.3	127.3	127.3	127.3	127.3	124.7	116.9	116.9	116.9	116.9	116.9	116.9	121.9

It should be noted that, as a matter of fact, prices of steel in Canada, from late in 1936 through 1937, had never advanced at its highest point to an increase of over 20% over early 1936 prices.

In December, 1938, this had dropped to an increase of 13%. It is true that United States steel prices in the same period advanced more rapidly. At the United States high point, there was an increase of some 33%.

It should be pointed out, however, that the Canadian Companies purchase the great bulk of their steel requirements in Canada and that, therefore, the Canadian price structure for steel should be the determining factor in considering the cost of this particular item in material cost. Steel was shown to be approximately 37% of the materials consumed in production.

The statistical information as to pig iron indicates the same comparative trends in Canada and the United States. Foundry castings were shown, in the Ottawa Inquiry, to constitute approximately 32% of the total materials consumed in production.

This is important in comparing the prices for farm implements in the United States and in Canada. The spread on small implements in favour of the United States farmer is now approximately the same as in 1936, and yet the American manufacturer had had to face a greater increase in the price of these two materials than the Canadian.

This would, therefore, further indicate that farm implement prices in Canada are determined by the larger Companies (in International Harvester Company of Canada Limited, and Deere and Company), whose central offices are situated in the United States and where the Canadian price structure for these Companies is fixed.

The Committee agrees with the Ottawa Committee that the increase in material costs did not justify the increase in prices taking place in 1936 and 1937.

The above is also of importance in considering the booklet, "Prices Comparisons 1913-1937 Farm Machines and other Manufactured Products", prepared by the Farm Equipment Institute (supported by 100 manufacturers), and apparently being used by the Companies to justify the increases in the price of farm implements.

The Committee does not consider it necessary to discuss the booklet other than to say that there are a great many factors to be considered in determining such a question, and that the booklet, and the chart upon which it is based, when properly analysed, by no means justify the increases that have occurred. The statistical information used in the chart is based on United States prices, 1913-1937; and it should be noted that 1937 is the peak year in recent years for cost of materials, etc.

In comparing Canadian and United States prices, it must be kept in mind that the Governmental policy pursued in the United States from 1933 on, deliberately intended to increase wages and prices of raw materials and manufactured commodities. This is clearly shown in the comparative steel and pig iron prices in the two countries before and after 1933. As a result, the spread since 1933 between farm implement prices in Canada and United States is considerably less than over a long period prior to the year 1933.

The International Harvester Company submitted to the Ottawa Committee the comparative cost of manufacturing a binder in its Hamilton plant and in its Chicago plant, and it was shown, despite the much greater volume in the United States plant, that in 1936, it cost only approximately 3.34% more to manufacture the binder in Canada.

The cost of "materials" in a binder were lower in Canada by 4.19% of the Canadian cost, and direct labour lower by 16.65%. The greater volume of production in the United States is the explanation of the overall cost being 3.34% higher in Canada. It is pointed out that, with the greater increase in material and labour costs in United States since 1936, this percentage of 3.34% would be lessened, and that it is altogether likely that the Canadian Companies can at present manufacture a binder, in Canada, at as low a manufacturing cost as in the United States.

Labour

Between 1930 and 1933, the Massey Harris Company put in operation a 10% decrease in wages paid in their plants. In 1935, the Company restored 2½% of this decrease and since then has restored the balance of 7½%, thus re-establishing the same scale as was in force in 1929. It can, therefore, be clearly seen that the increase in the price of implements between 1929 and 1939 is not attributable to higher wage costs. In 1929 the I.H.C. binder sold in Regina for $283.00 and in 1939 for $324.75.

Burden or Factory Overhead

This factor is the application of the fixed or variable factory overhead to each unit of production. It is easily apparent, therefore, that, generally speaking, increased volume of production lowers this item in manufacturing costs.

The Ottawa Committee found that 1926 was a year in which the industry used their plant facilities to their fullest extent. In 1933, the International Harvester Company indicated it was using only 8% of its plant productive capacity. Since then, there has been a progressively higher volume of manufacturing and of sales, and, as a result, the Companies have steadily lowered the item of burden to be included in the costs of manufacturing.

To illustrate this the Committee includes a table of the apparent purchases of farm implements by farmers in 1926, and in the years 1932 to 1937, inclusive, compiled from the figures supplied by the Dominion Bureau of Statistics:

Estimated Apparent Farm Purchases of Farm Implements and Machinery by farmers in 1926 and in the years 1932-37 inclusive.

Year	Apparent Purchases (Amount paid by farmers)
1926	$52,211,473
1932	8,213,295
1933	8,195,997
1934	11,638,335
1935	17,087,361
1936	25,856,602
1937	35,161,076

It is clear, therefore, that burden is not a reason for the increases of price that have occurred, and in fact would have been a reason for a decrease.

Financial Results

The only Company to submit balance sheets to indicate the results of its operation in Saskatchewan was the Massey Harris Company. These showed the Company to have incurred a loss on its business in this Province in 1936, 1937, and 1938. In 1938, its loss as compared with 1937 was approximately cut in two. The explanation is, of course, the inability of the Saskatchewan farmer to purchase farm implements at the present prices; and, furthermore, the loss clearly illustrates his present financial plight.

If crop conditions improved and if its purchasing capacity improved, Saskatchewan offers a very profitable market for farm implements, particularly if prices could be reduced to a point that would enable it to buy its current requirements and a portion, at least, of its backlog, or unfulfilled requirements, since 1929.

The financial results of the Companies in the whole of their operations show a decided improvement. The Ottawa report showed, for instance, that the Massey Harris Company had suffered losses in its world business in excess of $15,000,000.00 in the years 1930-1935 inclusive. In 1938, this Company showed a net profit of approximately $1,000,000.00 after paying bond and bank interest and income tax.

The United States Inquiry shows that the International Harvester Company enjoyed, in 1937, an even better profit year than in 1929, a previously peak year. The report also showed Deere and Company failing to exceed 1929 by only 1.4%. Obviously, therefore, the poor financial picture presented at Ottawa as a reason for increase in prices has steadily improved, and this can no longer

be relied upon by the Companies as a reason for increasing prices. Again, this steady improvement in earnings should have reflected itself in lower, not higher, prices.

The Committee is of the opinion, therefore, that the reasons advanced by the Companies as justification for increased prices cannot be supported, and finds, as did the Ottawa and United States Inquiries, that prices are substantially higher than they should be.

Canadian Prices Compared with United States Prices

Professor Hardy, of the University of Saskatchewan, was requested by the Committee to visit the neighbouring State of North Dakota, and submit to the Committee his findings as to comparative prices of farm implements, including tractors, in that State.

On his return, he submitted to the Committee information relating to a binder, one way disc or harrow plow, a tractor, a combine (with which he was dealing), and repair parts. He made it clear that the implements had been inspected by him, and were of comparative quality and design to similar implements being marketed in Saskatchewan. His submission, giving considerable detail on the matters investigated by him, has been filed with the Committee.

It is considered sufficient for this report to give comparative figures at which the International Harvester Company sell like implements in Canada and United States at points reasonably comparable in the matter of freight charges. This information is set out in the table inserted below.

FARM IMPLEMENT PRICES
INTERNATIONAL HARVESTER COMPANY

Implement	Regina Zone B	Crosby, N.D.	Difference	Swift Current	Malta, Mont.	Difference
8' Binder 4H Hitch, fore carriage and Bundle Carrier	324.25	294.20	30.05	328.75	303.05	25.70
9' Harrow Plow	329.00	304.00	25.00	334.00	316.00	18.00
500 No. Cream Separator	114.00	90.41	23.59	114.50	92.00	22.50
W30 Tractor Steel Wheels	1158.00	1129.65	28.35	1169.00	1150.65	18.35
W30 Tractor Rubber 12.75	1414.00	1371.30	42.70	1425.00	1392.45	32.55
WD40 Diesel Tractor	2349.00	2294.45	55.55	2367.00	2326.00	41.00
6' Combine Power Take off	871.00	734.65	86.35	831.00	749.90	81.10

It should be noted that North Dakota imposes a State Sales Tax of 2% on farm implements, and that this is not included in the above quoted North Dakota prices. It should also be kept in mind that there is a duty of 7½% on farm implements, 12½% on cream separators, but none on tractors, entering Canada. All are subject to a 3% excise tax imposed on the duty paid value, or, in case there

is no tariff, on the "fair market value" determined by the Department of National Revenue. The subject of these barriers is discussed later in this report.

Professor Hardy found a substantial difference in favour of the United States purchaser on small farm implements and cream separators, and comparatively little on tractors, combines and repair parts handled by the implement Companies doing business in both countries. Where independent dealers such as Sears Roebuck, Montgomery, Ward and Company, T. Eaton Company, Simpsons, McLeods, etc., are marketing certain repair parts, the industry has lowered its price to meet this competition.

In the light of what has already been stated as to manufacturing costs in the United States and Canada, and, further, in view of the Governmental policy in the United States, the Committee is of the opinion that the spread is not justified, that it results from tariff protection afforded, and is indicative that the price structure in Canada is not decided on a cost plus reasonable profit basis, but on a basis tacitly, at least, agreed upon by the leaders of the industry.

SECTION 4

Distribution

The Committee is definitely of the opinion that it is in the matter of distribution costs that the greatest saving can be effected, and has, therefore, concentrated its attention on this particular item in the total cost of farm implements.

The position can be best illustrated by the following information.

The Ottawa Committee found in the case of the International Harvester Company that the mark-up over factory costs of small implements manufactured in Canada averaged 53.19% of factory costs; on implements manufactured in the United States plants of the International Harvester Company and including cream separators, tractors and combines, the mark-up was 74.64% over factory costs, and that an additional mark-up of 60% of factory cost over the implement mark-up occurred in the price of repair parts. This mark-up is after commission and freight have been taken care of.

The table, before shown, of the breakdown of the cost of a binder will show the above estimate on small implements to be correct. In 1936, it cost $130.16 to manufacture a binder. The Regina cash price was $281.00. The Dealer's commission amounted to $45.50 and the freight charges $26.08, leaving a gross amount of $209.42 to the Company. This would constitute a mark-up on the binder over factory cost of approximately 60%; but the average of all like implements was, as stated, 53.19%. The spread or mark-up over

factory cost in the price to farmer (including commission and freight) in the case of the binder, in 1936, would be approximately 130%.

It is quite apparent that this mark-up over factory cost offers a substantial field for reduction in prices, if these costs of distribution could be lowered.

Out of this mark-up (after payment of freight and commission) the Company must take care of its selling and collection expenses, bad debt losses, certain general administrative expenses, and what is left constitutes the net profit of the Company.

This report now proposes to deal with some of the items included in distribution costs.

Distribution—Dealers

Representatives of the Saskatchewan Retail Merchants Association (Farm Implement Dealers' Section) appeared before the Committee, and submitted the difficulties facing the dealer class in Saskatchewan. Apparently they are not satisfied with the net return of a dealer agency, and particularly stress the difficulty presented by the trade-in problem.

The Committee is, of course, chiefly concerned with the position of the farmer as purchaser, and feels it would serve no good purpose to pass judgment in this report on what appears to be an internal problem in the industry.

It does point out, however, the close relationship between the dealer and his customer, the farmer, and urges the dealer to join with it in achieving lower prices to permit increased volume of sales. If this can be accomplished the dealer class will be considerably benefited.

It is noted by the Committee that the dollar amount of commission per implement has steadily increased. The commission percentage of the retail price has remained fairly constant throughout the years, but this percentage applied to an ever increasing price for the implement has, as is stated, increased the dollar amount of the commission.

To illustrate this, the binder, in 1913, was sold by the International Harvester Company, at Regina, for $167.02 cash. The commission allowed to the agent, in 1913, was $30.45. In 1936, the price of the binder had increased to $281.00, and the commission paid was $45.50. In 1939, the price of the binder had further increased to $324.75, and the commission paid was $53.75.

This increase in commission of $23.30 is, of course, included in the retail price, and is one of the factors causing the increase that has occurred.

The Committee is of the opinion that, if a larger volume of sales could be assured the dealer, this commission could be reduced and, nevertheless, the dealer's position improved.

Distribution—Time Sales

The Ottawa Committee drew particular attention to the loading on cash price to the purchaser buying on time. It pointed out that this loading, together with the interest charged by Companies, expressed in terms of an annual interest charge, ranged from 23% to 40% per annum. The Ottawa Committee pointed out that no industry, let alone agriculture, could carry such a load of credit charge, and recommended to the industry the substantial reduction of such excess cost for credit advanced by the Companies.

This Committee notes that the Companies have done away with this method of loading the time price. All Companies appearing before the Committee indicated that they have adopted one price for cash and time sales. Where credit is granted and the payment of the balance owing is to be made on the 1st October succeeding the sale date, the debt bears interest at the rate of 7% per annum. Where the payment of the balance is spread over two years, the amount not paid on October 1st in the year of purchase bears an extra credit load of ½ of 1% each three months in addition to interest at 7% per annum.

The Committee approves of the change that has been made insofar as this has removed an undue burden on the credit purchaser. However, this approval is conditioned on the assumption that none of the excess loading now appears in the cash price.

The Committee notes that the binder, for example, has increased in price from $281.00 in 1936 to $324.75 in 1939. The reasons advanced by the Companies for such increase have been dealt with in this report, and the Committee has already indicated that these reasons do not justify the increase that has occurred.

As a result, the Committee can only infer that what has been done is to transfer at least a substantial portion of the credit load into the cash price, and that the cash purchaser is now paying a substantial portion of the amount formerly paid by the time purchaser. In other words, one inequality has been removed, but another one has taken its place. The Committee expresses the opinion that the 1939 cash price is too high and should be substantially reduced. If this were done, the charge for credit would appear to be quite reasonable and proper.

Selling and Collection Expenses

The Committee found, as did the Ottawa Committee, that there is a very decided duplication of selling and collection expenses, all of which is reflected in the retail price. Each Company has its own

dealer organization, its own salesmen, its own collection agents, and its own service men, which must be taken care of by the price paid by farmers.

The Companies are inclined to agree with the above statement, but insist the industry does not see any way to effect a saving in these items of cost of distribution.

Freight Charges

This matter of increase in freight cost is dealt with later in this report.

Bad Debt Losses

The Ottawa report shows clearly that all of the Companies experienced very heavy loss in having to write off, as an asset, credit extended in the years 1923 to 1929. The report, however, shows that the Companies, by 1936, had made due provision for a very substantial portion of this loss.

The Companies urged that bad debt losses in Saskatchewan still remain a serious problem, and the Committee has no doubt that, due to conditions, this is true. However, the Companies agree that the down payment has been increased, that credit is much more closely scrutinized, and that volume of sale on credit has been greatly reduced since 1929. It is clear, therefore, that all these would restrict the losses suffered by the Companies, and that the load of credit loss has been, and will be, greatly reduced.

Recommendation of Ottawa Inquiry

The Committee finds that the only recommendation made by the Ottawa Committee that has been carried out by the Companies is the one dealing with the credit load on time sales. The Committee has already dealt with this and pointed out that this statement is qualified by the fact of the increase in the cash price.

Conclusions as to attitude of Companies towards problem

Head Office officials of the Massey Harris Company and the Cockshutt Plow Company appeared before the Committee with the Regina managers of these Companies, and, in addition, those of the International Harvester Company of Canada Limited and Deere and Company were present.

These officers were pointedly asked by the Committee if the industry, or any Company engaged therein, had any suggestion or plan to offer to the Committee by which prices could be reduced.

Each Company indicated, through its representatives, that it had no such suggestion or plan, and that there did not appear at the present any indication that a price reduction would occur this year.

The Committee had hoped the industry would recognize the urgency of the problem and have concrete suggestions to make.

In the light of the above statements by the Companies, the Committee is forced to conclude that the Companies cannot, or will not, provide any solution of the problem of present farm implement prices.

As a result, the Committee turned its attention to what other avenues were open to achieve the desired result, namely a substantial reduction in farm implement prices.

SECTION 5

Other avenues explored to induce lower cost to farmer of farm implements

The Committee believes that the problem being enquired into is, to a lesser degree, of great concern to the Provinces of Manitoba and Alberta.

The Committee, therefore, recommends to the Government of this Province that it secure the assistance and co-operation of these Provinces in pursuing any remedy suggested by this report and approved of by the Government.

The Committee also points out that certain recommendations can only be carried out by the Dominion Government, and suggests that, where this is necessary, the Provinces mentioned urge the necessary action upon the Federal Government.

The Committee assumes that the interest shown by the Parliament of Canada in the larger problem, as evidenced in the Ottawa report, would persuade the Government of Canada to assist in finding a *solution to a very urgent problem.*

It is proposed to deal first with those matters in which the Dominion Government could be of assistance.

Agreement between Companies to maintain uniform prices

This Committee has noted the simultaneous increases that have been put into effect by all of the Companies, since 1935, and taken notice of the well known fact that, generally speaking, the price of each comparable implement is fixed at approximately the same amount by each Company marketing such an implement.

The Ottawa Committee in dealing with this matter found as follows:

"The Committee is of the opinion, as a result of the above finding, that there is competition in the matter of securing sales but little or no effective competition in the matter of prices as between

companies. It is true that one company cannot increase its price unless other companies, particularly the larger ones, follow suit but, as illustrated in January, 1936, and throughout the period, increases in the prices or maintenance of prices when a decrease should have been expected, occurs simultaneously in all the companies. The companies insist that no understanding existed between them in the matter of the January, 1936, increase and that the increases resulted from the same conditions arising in each company. It is extremely difficult for the Committee to understand the remarkable coincidence of the increase occurring in the same month of the same year and, generally speaking, on the same implements and to the same extent. The companies state that it is the practice in the industry to exchange price lists and it may well be that this practice enables the companies to quickly gain uniformity in the matter of price levels."

The United States report finds as follows:

"The effect on prices of this concentration of production is such that, with respect to the most important farm implements, the prices established by the leading manufacturers, especially International Harvester Company and Deere and Company, constitute insofar as the machines are of closely similar character, the price level which all manufacturers observe.

"The small companies generally cannot sell their products for more than the established prices of widely accepted similar products of the large companies; nor do they feel free to sell for less than the price leaders for fear of starting a price war in which their large and financially stronger rivals would have all the advantage.

"Lest their prices be out of line, it is the practice among lesser manufacturers to await the announcement of prices by the leading companies at the beginning of each season, before announcing their own. Similarly, the price leadership of the large companies is followed in price changes made during selling seasons. In general, any price reductions are restricted to implements or machines for which the leaders of the industry have announced reductions.

"During the depression years, in the face of a decline of consumers' purchasing power, the industry sharply reduced production and employment, and made only slight reductions in prices. Such price reductions as were made in 1932 and 1933 were in the form of temporary special discounts. The Commission does not believe that such conditions are characteristic of a competitive industry.

"Following the leader in pricing is facilitated and effectuated by co-operation in exchanging prices, catalogues, and machine specifications among the farm-machinery manufacturers. It is claimed by manufacturers that the prices exchanged are those definitely decided upon and announced to the trade. The announcement of prices and of price changes by the leading manufacturers are

promptly mailed to other manufacturers. These price exchanges are carried on directly between individual manufacturers, and are the means by which other manufacturers keep their prices in line with those of the leaders of the industry. Under this method, manufacturers generally describe the procedure followed in determining prices of farm machinery to include the following:—

(a) Determination of desired prices on their own estimated cost basis;

(b) comparison of the prices thus tentatively determined with those of principal manufacturers;

(c) revision of prices as the result of such comparisons; and

(d) later revisions on the basis of selling experience during the season.

"The effectiveness of keeping prices in line is generally greatest for the older types of implements in which changes in design, materials, or construction have been the least in recent years, and the production of which has been most firmly dominated by the oldest and strongest long-line companies.

"The more important changes that have taken place in recent years have been largely in the newer, and less conventionally standardized tractors, combines, and tractor-operated implements and machines. During the last 8 years the two outstanding instances of such changes are in the development of smaller, all-purpose combines and tractors to sell at prices lower than the types already in the market."

This Committee is of the opinion that, in the light of the findings in these two reports, and because of the general knowledge of the maintenance of prices at a given level by all Companies engaged in the industry, a fair inference can be drawn that a tacit agreement exists between the Companies to maintain substantially uniform prices above the level justified by manufacturing and distribution costs plus a reasonable profit.

If this is so, the Committee points out that this would be a contravention of the provisions of the Combines Investigation Act, and recommends that this matter be drawn to the attention of the Dominion authorities for consideration and later action, if the inference is found to be justified.

Tariff and other Trade Barriers

The Legislature of this Province has, on more than one occasion and over a long period of years, urged, on general economic grounds, the removal of all tariff and other trade barriers against the importation of the implements of production and particularly farm implements.

The situation with regard to this matter during recent years and in the immediate future has been and is so acute that this Committee considers it necessary to strongly emphasize the need for immediate action in this matter of the removal of these barriers.

The Committee notes with approval the action already taken by the present Government at Ottawa, since it came into power, to reduce the tariff duties on farm implements and repair parts from 25% to 7½%, to remove completely the duty formerly imposed against farm tractors of over a given value, to remove the Sales Tax on non-dutiable tractors, to correct some of the inconsistencies and inequalities in the application of the rules and regulations of the Department of National Revenue, and, just lately, to remove the Excise Tax of 3% imposed upon imports of farm implements.

In addition, the Committee notes that a Committee appointed by the Government of the Dominion to survey the Customs Act and Customs Tariff Act and to recommend changes therein, is expected to report at this session of the House of Commons, and it is hoped that any inequalities arising out of the interpretation of these Acts by Departmental officials will be wholly removed.

The Committee, as already pointed out, wishes to stress the urgency of the problem existing at the present time in the matter of those engaged in Agriculture being unable to replenish their badly depleted farm implement equipment at present prices.

It is obvious that all measures of rehabilitation now being pursued by the Dominion and Provincial Governments at so much expense to the Public Treasury will not effect the full purpose of re-establishing the Western farmer as a self-supporting citizen of this country, if he is not permitted to reasonably equip himself with proper implements so that he can, in turn, make the greatest contribution possible to his own re-establishment.

The Committee has already pointed out that the Saskatchewan farmer has been unable to purchase his normal requirements of farm implements during recent years, and, as a result, it is estimated that the farmers of this Province would require to purchase from 50 to 75 million dollars' worth of these, in addition to this year's normal requirements, before they could be said to be properly equipped.

In the opinion of this Committee this is certainly a national emergency of sufficient importance to enlist every assistance within the powers of the Dominion Government.

It should be kept in mind that, while Governments have had to assist the farmers of this Province to maintain themselves on the land, the farmer himself, by his self-denial, his thrift, his difficult and sustained work in keeping his land in a reasonably good state of cultivation despite his poor equipment, has made a very real contribution to the problem of maintaining agriculture in this Province.

The agency that might have been looked to for a substantial contribution in its own interest, that is to say, the farm implement industry, has signally failed, in the opinion of this Committee, to make any such contribution. The Committee has already pointed out, but wishes to emphasize, the fact that, when the representatives of the Companies appeared before it, they indicated no suggestion or plan for lowering the cost of farm implements to the farmer.

The Committee has noted that, so long as any tariff, excise tax, sales tax, so called "dump" provisions of the Acts effecting importations, or the application of the "fair market value" rule are in effect, definite barriers are raised against the people of this Province helping themselves to find a solution for their problem.

The fact that under such rules and regulations an individual farmer can only import on a basis of the retail price in the country of origin practically debars the farmers of this Province, in any number, from finding a cheaper source of supply.

To illustrate, if a farmer went to the United States and was able to find a bargain in a binder, he would find he would be unable to bring the binder into this country by paying duty on a basis of his bargain price. On the contrary, he would find he would have to declare the amount he had paid; the Department of National Revenue would determine the "fair market value" in the United States fixed upon the prevailing retail price, and the farmer would have to pay the difference between the bargain price and the arbitrary fixed price as a dump duty. This dump duty is limited to 50% of the "fair market value." In addition, he would have to pay the duty on this arbitrary price.

In effect, as already stated, this, for all practical purposes, prevents farmers of this Province finding a cheaper source of supply in the United States or elsewhere.

The Committee also wishes to stress the fact that the Canadian manufacturer of farm implements is under no handicap at present in manufacturing costs due to the special increase in materials and labour costs occurring in the United States in recent years.

Later in this report the Committee recommends the development in this Province of a co-operative movement among the farmers to handle and distribute farm implements with a view to substantially reducing the cost.

The Committee feels that the farmers of this Province, individually, and collectively in such co-operative groups, should have every source of supply opened up to them if their efforts to reduce prices is to be successful.

This Committee strongly recommends, therefore, the removal of all tariff and other barriers to the importation of farm implements into this country.

The Committee is of the opinion that such action would meet with almost unanimous approval of the farmers, not only of Saskatchewan, but certainly of Western Canada and in all likelihood of the whole of Canada.

It is submitted that, if such action could not be adopted as a permanent policy, it should at least be adopted during this period of rehabilitation of agriculture and of those engaged therein.

Finally, the Committee wishes to point out the absurdity of a barrier or regulation that results in farmers, faced with the difficulties of carrying on that the farmers of Western Canada are faced with, being unable to take advantage of any individual efforts made to solve their own problem.

The removal of such barriers would undoubtedly lead to other agencies, such as independent jobbers, attempting to satisfy the demand for farm implements at prices within the purchasing capacity of the farmer.

Effect of Reductions in Tariff or other Trade Barriers

It is apparent, from the evidence taken before it and the report based thereon, that the Ottawa Committee enquired closely into the effect of reductions in tariff.

Prior to September, 1930, the tariff on farm implements (not including tractors or cream separators) entering Canada from United States ranged from 6% on binders, 7½% on drills, to 10% on plows, sleighs, and combines. In September, 1930, these tariff rates were increased to 25%. In January, 1936, under the terms of the first Canada-United States Trade Treaty, this rate was reduced to 12½%, and in May, 1936, further reduced to 7½% where it at present remains.

Prior to September, 1930, tractors over a value of $1,400.00 imported from the United States were subject to a duty of 10%. In September, 1930, this was increased to 25%. Tractors under a value of $1,400.00 were admitted free before and after September, 1930. In January, 1936, the Sales Tax, formerly imposed on non-dutiable tractors, was removed, and in May, 1936, all tractors used for farm purposes were placed on the free list.

Prior to September, 1930, cream separators imported from United States or Sweden were free of duty. In September, 1930, a duty of 25% was placed against this item. Recently this has been reduced to 12½%.

The Committee was concerned to find out the result of these reductions in Tariff that have occurred since 1930.

In the matter of farm implements Canada is served, almost wholly, by its own manufacturers, or from the United States. Great Britain and Sweden are important sources of supply for cream separators only.

The International Harvester Company manufactures approximately 50% of its Canadian requirements in Canada and the balance in the United States. This imported balance is largely weighted by tractors which are not manufactured in Canada, and on which there is no duty.

These were, until recently, subject to an excise tax of 3% and, for the purposes of computing the amount payable under this tax, the fair market value in the United States was fixed by the Department of National Revenue.

The Massey Harris Company manufactures a larger percentage of its Canadian requirements in Canada than the International Harvester Company, and the Cockshutt Company the whole of its line, other than tractors and cream separators, in Canada. Deere and Company formerly manufactured the substantial bulk of its Canadian requirements in the United States, and still does, but has recently re-opened its Welland, Ontario, plant, and now manufactures some "small implements" at that point. Oliver Limited, Minneapolis-Moline, J. I. Case, and Allis Chalmers Companies manufacture wholly in the United States, and, individually or collectively, market in Canada a full and complete line of farm implements.

These Companies, that is to say, Deere and Company, Oliver Limited, Minneapolis-Moline, J. I. Case, and Allis Chalmers, together supply approximately 18% of the total Canadian sales, as compared to 33% for the International Harvester Company, 20% for the Massey Harris Company, and 10% for the Cockshutt Plow Company. Since, however, they confine their operations to Western Canada, the importance in the Western market would be substantially greater than is suggested by that figure.

It is clear that, on all importations into this country from the United States and subject to a certain rate of duty, a reduction in that rate will be a direct saving to the Company so importing. Assuming, as is reasonable, that under the higher rates the Canadian business was sufficiently profitable to justify the Company doing business in Canada, when the tariff reduction takes place the Company could afford to reduce the price to the extent of its saving, and still do as profitable a business as formerly. To the extent that lower prices induce increased purchases by the farmer, the business would be more profitable.

As already pointed out, the Companies announced a price increase in January, 1936, averaging approximately 4.4% on farm implements. This increase practically coincided with a reduction in the tariff from 25% to 12½%.

The Companies enquired into by the Ottawa Committee gave as their reasons for this increase, the rise in manufacturing costs, that is to say, material, direct labour and factory overhead, and unsatisfactory financial results experienced by the Companies doing business in Canada.

The Ottawa Committee made a close examination of the facts embodied in these reasons. As a result, the Company representatives had to agree that, from 1929 to 1936, material costs had decreased, direct labour costs had decreased, and the only reason factory overhead had increased was the unprecedented depression, and that this particular problem was being steadily righted as the farmers were enabled to purchase a greater portion of their normal requirements. In other words, the Committee found that the only problem facing the industry was the obtaining of a normal volume of sales.

As to the financial results, the Ottawa Committee found that the International Harvester Company, Deere and Company, and other Companies in a like position of importing from the United States to serve the Canadian market, retained in the United States very substantial profits arising out of the Canadian business, and that, in examining the Canadian results, no consideration was given to this amount retained in the United States being properly attributable to the Canadian business.

To illustrate, in the period 1926-1935, inclusive, which, it will be noted, includes five quite abnormal depression years, the International Harvester Company showed in its Canadian books a profit of $7,500,000 before payment of income tax. However, it was found that an additional $17,000,000 of profits had been retained in the United States, making the total profits arising out of the Canadian business, some $24,000,000 (before provision for income tax).

These profits were retained in the United States partially as a result of the Company complying with the rules and regulations of the Department of National Revenue. The Company was of the opinion that, unless it invoiced all of its goods to its Canadian Company at a "fair market value" as determined by the Department of National Revenue, a dump duty would be imposed.

As a matter of fact, the Ottawa Committee brought to the attention of the International Harvester Company the fact that it was not necessary to invoice tractors to the Canadian Company at a price over and above the amount which the United States Company was willing to sell to its Canadian subsidiary, as tractors had been declared to be of a class or kind of goods not manufactured in Canada, and, therefore, not subject to the "dump" provisions of the Customs Tariff Act.

Deere and Company pursued a like policy and assumed from its Canadian books and records that the Canadian business was not profitable and, therefore, required an increase in prices. As a matter

of fact, Deere and Company likewise retained a very substantial sum arising out of Canadian business in the United States, and had given no proper consideration to this in considering the Canadian results.

The Ottawa Committee found that the International Harvester Company, in the period mentioned, 1926-1935, had made a net profit of 7.7% on its working capital before income tax. Deere and Company was shown to have made a net of approximately 5% in the same period.

When it is remembered that the period mentioned, 1926-1935, includes five years which can only be described as disastrous to the farm implement industry, the returns as shown on the Canadian business should have, in the opinion of the Committee, been considered very satisfactory indeed, and not justifying a price increase.

This Committee is in complete agreement with the Ottawa Committee in its opinion that the Companies, in increasing the price, in 1936, and maintaining this increase after the above information was drawn to their attention, have completely failed to appreciate the duties cast upon the industry to reasonably assist in the rehabilitation of agriculture.

This Committee, after reviewing the evidence before the Ottawa Committee, is of the opinion that the leaders of the industry in the United States and Canada decided that prices could be increased, and, as a result, these increases were put into effect.

The Massey Harris Company (for reasons dealt with by the Ottawa Committee and which were not attributable to too low a price structure) and the Cockshutt Plow Company, simply followed the policy pursued by the International Harvester Company and Deere and Company.

Again it should be pointed out that International Harvester Company and Deere and Company prices in Canada are determined by Head Office officials in the United States.

The Ottawa Committee found that Canadian prices from 1929 to 1933 did not decline to the same extent as in the United States. On the other hand, coincidental with the Roosevelt policy in the United States, the United States prices increased more rapidly than the Canadian. The Committee assumes, therefore, that the officials of the International Harvester Company and Deere and Company in the United States, who determined the Canadian prices, felt, in 1936, that the Canadian prices could be increased and still be not out of line with the United States prices.

This Committee has already called attention to the fact that material and labour costs in the United States rose more sharply from 1933 than did the Canadian, and that price increases occurring in that period, in the United States, would not be justification for similar increases in Canada.

In May, 1936, the duty was further decreased from 12½% to 7½%, and the International Harvester Company of Canada Limited immediately notified the Ottawa Committee that it was passing on to the Canadian purchaser the savings which this Company made on its importations from the United States as a result of the reduction in duty. These reductions affected some 150 implements, all of which were manufactured in the United States. The Massey Harris Company did likewise.

Both Companies attributed this to the reduction in tariff and the fact that, since the Companies were saving the amount formerly paid in duty, they were passing this saving on to the Canadian farmers.

The Ottawa Committee assumed that the same reasoning would induce Deere and Company, Minneapolis-Moline, Oliver Limited, Allis Chalmers, and J. I. Case and Company, and any other Companies serving Canada with farm implements manufactured in the United States, to pass on in a similar way the savings which these Companies individually and collectively would make in the cost of the implements laid down in Canada. As already stated, it was obvious that these Companies would save to the extent that the duty was reduced.

Had this happened, had true price competition applied, it is clear that the International Harvester Company of Canada Limited, Massey Harris Company Limited, and the Cockshutt Plow Company Limited, would have had to reduce their prices not only on their imported implements, but on their full line of implements, in order to meet the competitive prices as set up by the United States Companies manufacturing a full line in the United States and marketing these in Canada.

The Ottawa Committee found that this did not occur, and that prices on the large sales volume implements, such as binders, drills, etc., remained as before.

Deere and Company officials, when questioned at Ottawa as to why the expected result did not occur and why prices of all farm implements were not lowered as a result of the tariff reductions in January and May of 1936, answered that the result of the Canadian business prior to 1936 had been so unsatisfactory that the Company felt it had to increase prices, or, in any event, that it could not afford to pass on its savings in duty paid to the Canadian consumer.

The Committee has already pointed out the actual results in the Canadian business during the period 1926-1935. The Deere and Company officials agreed that they had not evaluated the profits retained in the United States. This reason, therefore, failed to be a satisfactory explanation.

The Company then suggested that it had not increased its prices in 1930 when the duty was increased to 25%, and could not be reasonably expected to reduce the prices when the duty was lowered in 1936.

The Ottawa Committee examined this reason advanced by the Company and found that, as a matter of fact, Deere and Company, in common with all other Companies, found itself with very substantial inventories of farm implements in Canada at the end of 1929 and that, due to the low volume of trade in the depression years, it had been able to supply practically the whole of the Canadian demand out of these inventories.

In other words, between 1930 and 1936, when the high duty rate was in effect, Deere and Company had paid out very little as a result of this duty increase, and was in a position to reduce prices in 1936 when the duty was lowered.

It is obvious, therefore, that this reason also failed to be a satisfactory explanation and, as a result, this Committee is in complete agreement with the Ottawa Committee that the increases were made without appreciation of either manufacturing or distribution costs, or of the true financial results of the Canadian business, and certainly without any appreciation of the plight in which the Canadian farmer found himself.

Another illustration of the effect of tariff reductions causing a corresponding decrease in retail price is shown in the price reductions announced by the Caterpillar Tractor Company in 1936, whereby the whole of the duty saved to the Company was passed on to the consumer. To illustrate this, in the case of one particular tractor, the reduction in price resulting from the tariff change amounted to approximately $1,000.00.

This Committee is of the opinion that, where a reduction in duty does not result in a reduction in price, it is because of a tacit agreement between the leaders in the industry that the savings resulting from the tariff reductions will not be reflected in a lower price and the resultant maintenance of the former and unjustified price level.

This is made possible by the control in the matter of price levels exercised in the industry by the financially strong leading Companies engaged therein. This control is particularly stressed in the United States Inquiry and the report based thereon. The report states that the International Harvester Company and Deere and Company largely determine the price levels for the industry.

The Committee is further of the opinion that, where the effect of such reductions in duty is ignored by the Companies concerned, this should be constantly and persistently brought to the attention of the consuming public. If this is done, the Committee believes that it will have a salutary effect on the Companies and that, as a result, the Companies engaged in the industry will be forced to pass the saving on to the consumer.

Freight Rates

The Committee wishes to deal with the above item in distribution costs on the basis of the emergency that now arises in Saskatchewan in the matter of farm implement requirements and prices.

The Committee is of the opinion that every item of expense must be examined to see if it can be reduced, in order that the retail price to the farmer may be lowered.

The Committee believes that the support of the industry, the farmer, the railways, and the Governments, must be enlisted if its objective of substantially lowered prices is to be gained.

While the Crows Nest Pass Agreement was in force, farm implements were included as a commodity securing special freight rates. During the war, the Crows Nest Pass Agreement was suspended in its operations and, as a result of this and of legislation by the Dominion Parliament in 1922, farm implements no longer secured the preferred rate. As a result, there has been a substantial rise in freight costs.

To illustrate, in 1913 it cost \$17.80 to move a binder from the manufacturing centres of Ontario to Regina. In 1939, it costs \$25.42, or an increase of 43% of the former freight cost.

If arrangements could be made to restore the Crows Nest Pass Agreement rate on farm implements, a saving of \$7.82 (in the case of a binder) on freight could be made, and while this does not appear to be such a large saving in actual dollars, it is one item of saving that would benefit the Companies and the consumer alike. In addition, since there is a definite sales resistance built up by the present high prices, the lowered price would encourage increased freight traffic and might, in the long run, benefit, rather than harm, the railways.

Again it is pointed out that such a low freight rate would be justified by the emergency that at present exists, and would definitely assist the farmer in his own rehabilitation.

If other savings of a like nature in distribution costs can be made, and all added together, the Committee feels its purpose in substantially lowering farm implement prices can be achieved.

SOLUTIONS WITHIN SASKATCHEWAN

The Committee now turns to suggested solutions within the Province itself.

In its public and private sittings, the Committee had before it many suggestions leading to a solution of the problem being considered by it. It attempted, so far as permitted by the time at its disposal, to investigate and to examine the merits of these suggestions so as to form an opinion thereon.

Manufacturing in Western Canada

Since the manufacture of farm implements is largely concentrated in the Province of Ontario, and since Western Canada consumes approximately 75% of all Canadian output, it would appear, other things being equal, that it would be more economical to manufacture in Western Canada.

The amount of freight expended in moving the implements from the point of manufacture, either in Canada or the United States, to the Western market, is very considerable.

The Committee was, therefore, interested as to the feasibility of manufacturing farm implements in Western Canada.

Mr. Thornton, of the Saskatchewan Power Commission, gave the Committee information as to the comparative cost of power in Eastern and Western Canada and stated that, if cost of power were the only factor to be considered, there was no reason manufacturing could not be carried on in Western Canada. He suggested that any large development would require increased power plant facilities and, in this connection, discussed the development of hydro power in the northern part of the Province.

Mr. East and Mr. Richardson, of Saskatoon, who have been engaged in the manufacture of certain farm and road machinery for some years in this Province, appeared before the Committee to give it the benefit of their experience.

They indicated that, in certain lines, particularly those made of cast iron, they were able to successfully compete in the Western market. They were of the opinion, however, that many difficulties would be met with in the manufacture of a fairly full line of agricultural implements in Western Canada.

However, the Committee feels that the problem is one that would have to be examined very carefully before a decision was arrived at, and recommends that the matter of the feasibility of manufacturing in Western Canada be referred to the Industrial Development Board, lately set up in this Province, for further examination and report.

Licensing and Regulating Farm Implement Agencies

The Committee has pointed out the duplication and added expense that is incurred in the present distribution system. Each Company has, if possible, a separate agency in each distribution point. The Massey Harris Company, for instance, has at present 568 dealers or agents in this Province.

In addition, there is duplication in selling and collection staffs, each Company to some extent covering the same ground and incurring the same expense as the others.

It is apparent to the Committee, therefore, that considerable could be saved if this duplication could be eliminated. The industry is inclined to admit the duplication, but pleads inability to remedy the situation.

It was suggested to the Committee, therefore, that the Companies might be assisted in economy of distribution, and the price structure lowered, if legislation were enacted to license and regulate the farm implement dealers in this Province. The legislation might also determine the number of agencies or dealers in a given area, and thus decrease the expense of distribution and improve the position of the individual dealer by giving to him adequate volume of sales. This should result in a saving in the amount of commission now being paid, and included in the selling price.

The Committee realizes that many things would have to be considered before passing judgment on such a plan, and feels it has not had sufficient time or opportunity to come to a well-informed opinion on the matter.

It, therefore, recommends further consideration of this suggestion by the Government of this Province.

Elimination of Credit Business by the Companies

Another suggestion considered by the Committee was based on the assumption that the Companies incur large items of expense in the collection of credit sales and in bad debt losses.

The Companies were not able to indicate what price reduction would result from the Companies being able to sell for cash and thus eliminate the collection expense and bad debt losses. The Companies agreed, however, that some considerable saving would result, and that this could be passed on in reduced prices.

It was suggested, therefore, that agencies such as banks, finance companies, the implement companies themselves, and other financial institutions be canvassed to arrange the setting up of a finance corporation, whereby all sales of farm implements on time would be financed by such a corporation, thus relieving the Companies and the dealers of the credit load.

As pointed out to the Committee, all credit would be in the hands of one agency, and the duplication of collection agents and expenses eliminated.

In addition, such an agency could finance credit as between the manufacturer and the dealers, and thus the manufacturer could be expected to pass on to the consumer the full advantage derived from doing a cash business only.

The Committee has already pointed out that it is of the opinion that part of the credit load of the Companies is now included in the quoted cash price. If this were not so, and the quoted cash price satisfactory, it is unlikely that any finance corporation would carry

the credit load as cheaply as the Companies are now doing it. It is clear, therefore, that a substantial reduction in the quoted cash price would have to be made before an increased credit charge would be justified.

The Committee realizes that such an arrangement or plan would require careful consideration, and that some time would be required to carry on the necessary negotiations and to see if satisfactory arrangements could be made.

It, therefore, recommends the plan to the Government of this Province for further examination and consideration, and, in order to assist, attaches to this report, the original plan as submitted by Mr. O. Demers, M.L.A., in a letter dated March 14, 1939.

OTHER SUGGESTED PLANS

Two other suggested plans were before the Committee, and, since these were the most direct and comprehensive submitted to the Committee, it is proposed to deal with them at some length.

These plans were:—

(1) That the Government set up, and adequately finance, a Farm Implement Board to become the sole distributing agency for farm machinery in this Province.

(2) The Co-operative Plan as presented by Mr. James McCaig, President of the Saskatchewan Co-operative Wholesale Society Limited, Mr. Robert McKay, Secretary of the same Society, and Mr. H. L. Fowler, President of the Saskatchewan Conference of Co-operative Associations.

Government Board Plan

Mr. G. H. Williams, M.L.A., who urged favourable consideration of the first, or Government Board, plan, made it clear to the Committee that, if the Co-operative Plan would function quickly enough to satisfy the urgency of the problem, he would support such a co-operative plan in preference to direct intervention by the Government into the farm implement business.

Mr. Williams expressed the opinion, however, that the Co-operative Plan as given to the Committee was not an immediate solution to the problem, and for that reason supported the setting up of a Government Board.

The plan outlined by Mr. Williams was that the Government Board purchase farm implements (not to include tractors) in bulk from one Canadian manufacturer, if possible, and if not, from other sources. He submitted that this would enable the Province to purchase farm implements on a reasonable cost-plus basis, and that substantial reduction in the price could be obtained.

The distribution was to be handled by the Co-operative Associations or, if these would not undertake this task, through the present dealer outlets.

Mr. Williams gave as his opinion that prices could be reduced by 40% of the present retail price.

The Government would be expected to finance credit sales on a reasonable credit basis.

The plan was based on the assumption that the Government Board, having control within Saskatchewan of all distribution agencies, would have volume of purchasing power, and, therefore, ability to control the price structure.

The plan excited a great deal of discussion before the Committee and, finally, the Committee indicated its inability to approve of such a plan.

The discussion developed many objections to the plan. These may be summarized as follows:—

(1) The constitutional authority of the Province to create such a Board as the sole agency was not sufficiently certain to recommend it.

(2) The Companies who would be excluded from Saskatchewan would undoubtedly test such legislation in the Courts, and it might be 2 or 3 years before the legal position was finally determined.

(3) The Government is not the best agency to enter into the farm implement business and to procure the desired results.

(4) The plan would involve the Government in a very substantial investment, running into the millions, the result of which was uncertain and might easily result in huge financial losses to the people of the Province.

(5) The Government would have difficulty in financing such a plan.

(6) It was by no means clear that such a plan could be put into speedy operation, as the necessary legislation would have to be passed, financial arrangements would have to be made, a suitable contract with manufacturers entered into, the present branches and warehouses of the Companies no longer permitted to operate would have to be taken over and compensation arranged therefor, and, finally, it would take time to set up a new system of distribution.

(7) The plan was in direct variance with the recommendations of the Co-operative Societies, inasmuch as it was commencing from the top and not from the bottom, or, in other words, not based on the primary essential, namely, consumer demand already created and organized to co-operate intelligently with the agency of distribution.

(8) The plan would exclude farmers who were not satisfied with the farm implements being sold by the "Board", and who preferred some other make of implements, from securing what they desired within the Province, and this would likely create decided opposition on the part of such farmers to such a scheme.

(9) The suggested saving of 40% was much too optimistic, under a scheme which deals with distribution alone.

(10) The Government has no experience in the implement business, and would have great difficulty in building up a trained and efficient personnel.

(11) There is little sense of partnership between the consumer and the Government, while there is a deep and permanent sense of partnership in the co-operative movement.

(12) The plan might easily not be permanent, and thus offer no lasting solution for the problem of farm implement prices.

The Government Board plan was presented to the Committee in the form of a resolution, and, in order that it may be studied and considered, a copy of such resolution is attached to, and made part of, this report.

Co-operative Plan

The three representatives of the Co-operative Association already referred to, appeared first before the Committee on February 24th. On that occasion they intimated to the Committee that the Wholesale Society had already, in a small way, become engaged in the farm implement business through its connection with large United States Co-operatives who were manufacturing and marketing a Co-operative tractor.

The Wholesale Society also intimated it had decided to engage in the handling of farm implement repair parts, and was arranging to set up the necessary facilities at certain centres in the Province.

The Wholesale Society has been in existence for a number of years, and its business is developing satisfactorily both in volume of sales and in the matter of financial results.

The Committee wishes to publicly record its high opinion of the character, experience and soundness of judgment evidenced by the representatives of the Co-operative movement in this Province, on their appearance before the Committee.

The Committee realizes that any such plan must be ably led and directed, and is of the opinion that the Co-operative movement in this Province is fortunate in that regard.

The success of the Consumers' Co-operative Refinery, an associate of the Wholesale Society, has been very substantial, and the Committee is in agreement that the Co-operative movement has made a real contribution to lowering the cost of petroleum products to the farmer, and can reasonably be expected to do likewise in farm implements, if given the necessary support by the farmers of this Province.

The Co-operative Associations of this Province are already doing business amounting annually to roughly $3,000,000.00. This indicates capacity to manage and conduct a large volume of business, and the Committee is of the opinion that the experience already gained is of inestimable value in venturing into new fields of co-operative effort.

In order that the submission by the representatives of the Co-operative groups on their appearance before the Committee, on February 24th, may be studied, a copy of Mr. Fowler's statement is attached hereto and made part of this report, as it embodies the plan recommended by the Co-operative groups and indicates the reasons for such recommendations.

The main points involved in the submission may be summarized as follows:—

(1) The present price of farm implements to the farmer is much too high, and can be greatly lowered by the adoption and application of co-operative principles on the part of the farmers of this Province.

(2) As an indication of the result of co-operative effort the Consumers' Co-operative Refinery is now manufacturing and distributing gasoline for less than one-third of the "cost" suggested by the major oil Companies.

(3) Large Corporations are grossly inefficient, and add items of cost without improving utility of article being sold.

(4) Co-operatives cannot be "set up". They must grow from a consumer demand on the part of the people, together with a determination to be loyal to co-operative principles so as to achieve worthwhile results.

(5) Ultimately, and if given sufficient consumer support, co-operative manufacture and distribution of farm implements could save at least 40% of the present retail price of farm implements.

(6) The Co-operative Associations are of the opinion, that, ultimately, a binder costing $130.00 to manufacture (1936 actual International Harvester Company figure) in Eastern Canada could be laid down in the farmer's yard in Saskatchewan at not more than $177.00, if co-operative principles of distribution were applied.

(7) Co-operative credit advanced to members is the safest of all credit, as each member is moved by his own interest to take care of his indebtedness to his Co-operative Association.

(8) Credit Unions should be encouraged to assist in financing the co-operative farm implement business and to place the farmer in a position of independence.

(9) The Saskatchewan farmers have shown ability to solve the financial problems of the Co-operative movement. The members of the Co-operative Refinery have $60,000.00 on deposit with that Association, assisting it in financing its needs.

(10) Competition, as it is known in large corporate industry, is exceedingly costly and wasteful.

(11) Present competition produces goods from standpoint of maximum profit, and not from that of maximum utility.

(12) Factors which enter into successful co-operative associations are

(a) Efficient management.

(b) Adequate direction.

(c) Loyalty of members.

(13) Gave examples of the failure of certain co-operative ventures "set up", (that is to say, organized) from the top down. There must be a genuine co-operative demand for the products from the people as a necessary preliminary to any co-operative development.

(14) Recommendations to the Committee to speed up present programme of Co-operatives in the manufacturing and distributing of farm implements:

(a) Educational and supervisory assistance to organized Co-operatives.

(b) A suggestion (not a request) that the Government make available to the Wholesale Co-operative Society, a revolving fund of say $50,000.00 to enable it to develop a little more speedily its farm implement business.

(15) Would look with disfavour on any large grant or loan of money to the co-operative movement until the farmers of Saskatchewan indicated support of co-operative programme on such a scale.

(16) If the Co-operative movement made wise use of revolving fund of $50,000.00, increased assistance could be given to enlarge operations.

(17) It might take from 3 to 10 years to build up a substantial co-operative farm implement business to the extent that it would be a real factor in lowering the net cost of farm implements.

(18) The Co-operative Associations were of the opinion that no substantial saving could be made by Co-operative Associations acting merely as agents of the farm implement companies.

The Committee strongly approves of the Co-operative Plan before outlined.

It is definitely of the opinion that the true and permanent solution of the problem of farm implement prices is to be found in co-operative effort.

It recognizes the necessary time involved in developing such a plan, but wishes to point out the essential truth that if, in fact, it is the true solution, the sooner the people of Saskatchewan adopt such a plan, the sooner will the beneficial effects be apparent.

The Committee has in mind the outstanding merit of the Co-operative Plan in that it would inject into the present system an element of true competition, permanent in its nature and, therefore, permanent in its effect on farm implement prices.

The Committee further notes that, if such a co-operative plan could be successfully carried out, it would, of necessity, build up in this Province a movement financially strong and with an experienced management capable of taking care of other problems of a like nature.

It is apparent that a strong co-operative movement supplying a substantial number of farmers in Western Canada, and making its purchases in bulk through a central Wholesale Society, should be able to effect very substantial savings in the price paid to the manufacturer with whom it contracted.

Further Co-operative Suggestions

The representatives of the Co-operative groups were invited by the Committee to consider the possibility of speeding up such a plan, having in mind the great urgency of the problem.

On March 6th, the same representatives appeared again before the Committee, and made further suggestions as to how the Co-operative Associations could assist in finding a more speedy solution.

They made it clear that it was only recognition of the urgency of the problem that persuaded them to submit the further proposals. They further made it clear that, but for this, they would prefer to adhere to the long-term plan previously submitted.

The submissions of Mr. McKay and Mr. Fowler are filed as Exhibits with the records of the Committee, and are available to anyone interested.

In effect, the Co-operative Associations suggested that the Government of this Province join with the Governments of Manitoba and Alberta in an extensive campaign to mobilize and organize co-

operative membership in the three Provinces; that each member be required to purchase a share, for say $10.00; that a substantial number of approximately 30,000 members be secured; that local Co-operative Associations, affiliated with the central Wholesale Association, be set up to take care of the distribution of farm implements; that an educational campaign be carried on to instruct farmers in co-operative principles; and, finally, when this essential base of consumer demand has been organized, that the Co-operative Wholesale Association enter into negotiations with one of the Canadian Companies to supply its requirements in farm implements at a reasonable cost-plus basis, and to take over the whole of the distribution of that Company's products in Western Canada, through Co-operative outlets.

The Co-operative group pointed out that such a plan would require financial assistance from some source, and estimated that at least $1,000,000 would have to be made available in order that sufficient inventory of farm implements and parts would be built up to serve the market and to take care of the credit extended to farmers.

They suggested that the Co-operative Departments of Government be increased to enlarge and widen their programme of assisting Co-operative growth.

The Committee desires to commend the representatives of the Co-operative Associations for making an attempt to more quickly solve the urgent problem. It appreciates, too, the reluctance of the Co-operatives to depart from the rule of self-help, and agrees with them in believing that complete independence from Government, financially and in matters of policy, is a necessary adjunct of true co-operative growth and development.

However, in view of the emergency that exists, the Committee sees much in the plan to recommend it. It believes that the farmers of Western Canada would respond in large numbers, if properly informed as to the plan and purpose of the Co-operative group.

It further believes that, while the amount of financial assistance required is considerable, such an amount would be more than justified if, as a result, a permanent solution to the problem were found through this method.

Conclusions re Co-operative Plans

The Committee, therefore, sums up its conclusions as to the first and second plans suggested by the Co-operative groups.

It unreservedly approves of the long-term plan, and definitely recommends to the Government of this Province that it give to the Co-operative movement the support and assistance suggested.

As to the second plan submitted, the Committee agrees with the representatives of the Co-operatives that it should be carefully considered, and the essential facts ascertained, before being put into operation.

The Committee recognizes its inability to complete such a task, and, therefore, recommends to the Government careful and sympathetic consideration of the plan. It further recommends to the Government the securing of all the necessary facts, and proper estimates of financial assistance required, in order to pass final judgment on the plan.

If such investigation shows the plan to be feasible, the Committee recommends to the Government the giving of such necessary assistance as is required by the Co-operative groups concerned to put the plan into effect as speedily as possible.

It recommends, further, in the event of such assistance being given, that the Government keep in mind the basic principle of self-help on which the Co-operative movement is founded, and the Government should leave the practical working out of such a plan to the Co-operative groups.

Incidentally, the Committee suggests that, if the basis of consumer demand was definitely and soundly organized, it might be quite possible that no financial assistance, other than for organization purposes, would be required from the Government, as the Committee feels, if such a sound foundation were laid, the Company with which the Co-operative Wholesale contracted might find it in its own interest to finance the Co-operative movement in its inventory requirements and in the credit granted. The Committee suggests to the Government consideration of this suggestion.

The Committee also points out that the Ottawa Committee of the House of Commons recommended that the Companies should make an effort to reduce costs, or farmers should be encouraged to organize for the co-operative distribution of farm implements.

In view of the fact that this Committee finds that the Companies have signally failed to remedy the situation, it is suggested for the consideration of the Government of this Province that the Dominion authorities might now be willing to assist in the formation of a sound and practical Co-operative movement throughout Canada to distribute farm implements.

Having in mind the recommendations that one or both of the Co-operative Plans be adopted, the Committee desires to recommend certain things that would assist in the successful growth of such a movement:

(1) That the farmers of the Province realize the very important contribution that they can make to such a plan, the purpose of which is to lower the price of farm implements.

The Co-operatives stress again and again that no plan can be successful unless the farmers thoroughly appreciate Co-operative principles and are willing to loyally support the application of those principles.

(2) The growth of Credit Unions should be encouraged among the farmers in order to assist in the financing of the operations of the Co-operative Wholesale Society handling farm implements. In addition, the Committee believes that, finally, such Credit Unions would largely provide a source of cheap and satisfactory credit to the farmers.

(3) That the Dominion Experimental Farms, the Universities of Western Canada, and the farm implement companies be encouraged to continue their educational courses to improve the farmer's capacity and knowledge in taking care of, and servicing without expense, his own farm implements.

(4) That the Dominion Experimental farms and the Universities be encouraged to test new implements so as to pass judgment on their suitability, and, in addition, to suggest improvements and, where possible, standardization of implements and the parts thereof.

The Committee again stresses its opinion that, in order to lower the price of farm implements, every agency concerned must combine and co-operate to find and apply the best methods to achieve this objective.

FINDINGS AND RECOMMENDATIONS

From the foregoing it is clear that this Committee finds:

(1) That retail prices of farm implements, repair parts, and cream separators are too high, and,

(2) That the industry itself cannot, or will not, suggest a remedy.

The Committee, therefore, recommends:

(1) That the Government of this Province invite the co-operation of the Dominion Government and the Governments of the Provinces of Manitoba and Alberta in the carrying out of any plan to procure substantially lower implement prices.

(2) That, as the provisions of the Combines Investigation Act of the Dominion appear to have been violated by the major Companies in the industry, consideration should be given to instituting proceedings under the said Act.

(3) That Dominion legislation be urged to remove all tariffs and other trade barriers on farm implements, repair parts and cream separators.

(4) That the Dominion Government be urged to restore the Crows Nest Pass Agreement freight rates on farm implements.

(5) The adoption, and support by the farmers of this Province, of the co-operative trading movement.

(6) The adoption of the plan submitted to the Committee by representatives of the Co-operative Associations on February 24, 1939, and the giving to the said Associations by the Government of this Province, of the support and assistance suggested in that plan.

(7) The careful and immediate examination and consideration by the Government of this Province of the further plan submitted by the said representatives on their further appearance on March 6, 1939.

(8) In the event that such examination and consideration is favourable, the giving of the support and assistance suggested in such plan.

(9) That the Credit Union plan among farmers be encouraged.

(10) That the University of Saskatchewan be requested to test the relative quality and utility of repair parts being offered for sale in this Province.

(11) That the Dominion Experimental Farms, the University of Saskatchewan, and the farm implement Companies be encouraged to continue their educational courses in the management, care, and operation of farm machinery.

(12) That the Dominion Experimental Farms and the University of Saskatchewan be encouraged to test the utility of new implements, to suggest improvements, and, where possible, to encourage standardization of implements and repair parts.

As a result of its Inquiry, the above are the recommendations which the Committee sees fit to make. It would, however, call to the attention of the Government, and persons interested, other suggestions considered (and dealt with in this report) by the Committee during its investigation.

This Committee, having been instructed by the Legislature to engage the services of Mr. R. T. Graham, K.C., as Counsel to the Committee, desires to express its deep appreciation of his skilful and painstaking efforts in securing the attendance of witnesses and records, his examination of the witnesses, and his preparation of the final report. The Committee further recommends that payment be made of Mr. Graham's account for fees and disbursements in such amount as the Government shall decide.

All of which is respectfully submitted,

W. G. Ross,
Chairman.

Regina, March 24, 1939.

APPENDIX

SUBMISSION

by

H. L. Fowler, Chairman

Saskatchewan Conference Co-operative Trading Associations

February 24th, 1939.

Mr. Chairman and Members of the Legislative Committee:

The submission I make to you today is on behalf of the Trading Co-operatives in the Province of Saskatchewan, and has no connection with the Consumers' Co-operative Refineries, Limited, with which organization I am actively identified. The Refinery, as such, is not interested in the manufacture or distribution of farm machinery, but our officers and directors as individuals, and as component parts of other forms of the co-operative movement, are intensely interested.

In making my submission on behalf of the co-operatives I shall, of course, find it necessary to make certain references to our petroleum programme and I wish to point out, at this time, that I am doing so only for purposes of illustration. I do not wish it to be assumed that I am using this opportunity to publicize the activities of the petroleum co-operatives.

It shall be my duty to give, more or less, to the committee the basic background and some of the psychology of the co-operative movement, and it will be left to Mr. McCaig, President, and Mr. McKay, Manager, of the Saskatchewan Co-operative Wholesale Society, Limited, to lay before you facts in connection with the co-operative machinery programme which is now being undertaken.

Mr. McCaig will tell you of the co-operative machinery factory at Arthurdale, West Virginia, how farm machinery is being manufactured there at cost and distributed to the consumer by co-operatives. The Saskatchewan farmer is particularly fortunate in that his American co-operative colleagues have permitted him to engage in this activity at only nominal cost to the Saskatchewan farmer.

I wish at this time to express my personal appreciation of the retention of Mr. R. T. Graham, K.C., as committee counsel. It has been my privilege to have worked with Mr. Graham on at least two inquiries into the cost of petroleum, and as you gentlemen are no doubt aware, he performed his duty in that respect with a credit to himself, and rendered a distinct service to the petroleum consumers of Saskatchewan. I know that, with his experience at the farm implement hearing at Ottawa, his efforts will be equally effective on this occasion.

The Committee has benefited by a very exhaustive inquiry by the Dominion House of Commons on this subject something over a year ago. I know that you gentlemen have gone far enough to know that it is hopeless to expect, in an analysis of the cost of farm implements, to find a "big, bad

wolf" which you can destroy at one fell swoop and immediately cut the price of farm implements to the farmer consumer. If there is a "big, bad wolf" in the manufacture and distribution of farm machinery, it is that thing called "competition" of which I will have more to say later in my submission.

In the report, the binder was taken as a typical implement, and a breakdown of the laid-in cost at Regina of $281.00 would indicate that among the various items listed there is no one which can be singled out as a cost which can be entirely eliminated. Yet I think the average farmer, or perhaps even the average individual, in looking at a binder, just knows from a commonsense standpoint, that it should not cost $281.00. I recently had occasion to enquire into the cost of a new typewriter to find that it has a list price of $180.00. This appears to me to be ridiculous. Yet I know that an exhaustive inquiry or a breakdown into the various costs would perhaps show somewhat a similar story to a binder. We were told, at various petroleum inquiries in the past, that it cost approximately 4c per gallon as a distributing cost for gasoline. Since the farmers of this area have bought and operated their own Refinery, we now know from actual experience that we, as farmers, are manufacturing and distributing gasoline for less than one-third of the cost which an analysis of the accounts of the major oil companies showed that it was costing them.

The co-operative yardstick, as applied to competitive manufacture and distribution, indicates that our large corporations today are grossly inefficient and are adding many items of cost which in no way improve the utility of the article manufactured and distributed.

Since this committee has announced its intention of enquiring into the cost of farm machinery, there has been given a glib suggestion that the answer was through the co-operative movement, and it has been suggested, both in the press and, I believe, in the Legislature, that the answer is to "set up" co-operatives to solve the problem. It is the opinion of those who are actively engaged in the consumers' co-operative movement in Saskatchewan that co-operatives cannot be "set up". Because of this mistaken attitude on the part of a few, I am going to trespass to some extent on your time by discussing some of the underlying principles of the consumers' co-operative movement.

I wish to use, as an illustration, the case of two farmers living side by side, who, in order to cut their operating costs, decide to purchase and operate a threshing machine. The first step in this procedure is, of course, the making up of their minds to engage in this activity. In this they would give careful consideration to all the factors entering into the circumstance, and once embarked on their activity, the existence of custom threshers would not be a factor. Competition, from and among custom threshers, would not be considered in their operation. They would not, for instance, hire an individual to sit in their yards whose sole purpose was to persuade them to use their own threshing machine.

There is no essential difference between two farmers operating a threshing machine and two hundred consumers operating a general store, five thousand consumers operating a refinery, or flour mill, or one hundred thousand consumers operating an implement factory. There is a difference in mechanics.

In the threshing operation each individual pays his costs and expenses as they accumulate, and the end of the season finds him in the position of having his threshing done at cost. In the larger operation the knowledge of absolute costs is absent. Therefore, it is necessary, in order to have the

operation conducted in a business like manner, to charge a certain price for the service, and when costs are known (usually at the end of a fiscal year) to pay a patronage dividend, or to put the "patronage dividend" in proper legal phraseology, refund the overcharge. In arriving at the price necessary to charge for a particular article or service, co-ops have found, through long experience, that they are perfectly safe in setting as their base price the competitive price or charge made by those who are engaging in the business from a competitive standpoint.

We will later outline some of the factors which are necessary in an ideal or successful co-operative association, but let us assume for the time being of the existence of such, and having assumed such, let us see what a successful co-operative can do with farm machinery, and how.

May I say that in my opinion, and this opinion is based on active participation in consumers' activities, that a conservative estimate would indicate that at least 40% of the present cost of farm machinery can be saved through co-operative manufacture and distribution of this commodity. I base this statement on the petroleum picture, and would say that in 1930, before co-operatives in this area were engaged in the manufacture and distribution of petroleum, a certain grade of gasoline sold at 26c. The Regina farmer, in 1938, purchased the same grade of gasoline for 12½c. There has been some reduction in the cost of crude, and endeavouring to make the comparison on the basis of crude parity, today's cost would be 15½c.

Putting this in terms of the cost of operating a section of land in the Regina area, let me say that the actual cost of the operation of one section in 1930 was $656.25. The same quantity of petroleum products at list prices in 1938 cost $374.00, a saving of $282.25. Actual dividends on this volume would have amounted to $117.00, making the total saving $399.25. Expressing this in terms of crude parity, the saving between 1930 and 1938 is $355.25, or a reduction in the cost of the petroleum necessary to farm a section of land in this area of 58%.

This saving was not accomplished over night. Our petroleum programme has been under way for eight years, and it is only during the last few years that a really credible showing has been made.

I am going to take the manufactured cost of the binder, as shown in the Ottawa inquiry, at $130.00. I do not know whether or not co-operatives could manufacture it cheaper, but I do say that we could manufacture it just as cheap. We will then add freight to Regina which is shown at $26.00 (it was intimated in the report that the I. H. C. used water-borne freight which placed this freight cost at $21.00). We now have the binder in Regina at a manufactured cost plus freight of $156.00. It is our problem to place it in the yard of the farmer at as low a cost as possible. The Ottawa report shows this cost to be agent's commission $45.00, and gross margin $80.00. I have placed the cost of placing this binder in the farmer's hands of 6% of the value, or approximately $18.00. I arrive at the figure of 6% by analyzing the operating expenses last year of several of our well-organized co-operatives, and I find this expense to be about 6%. A member of a co-operative who wishes to save money on his purchases must do something himself, therefore, he should not ask for unnecessary service, and the problem of servicing the binder should be limited to the physical set-up and collecting the payment therefor. I am estimating the cost of collection and bad debt expense at 1%, or $3.00. Taking our laid-in cost of $156.00, and adding to it the above mentioned figures, we now have a cost in the farmer's yard of $177.00. The binder, of course, would be sold for the list price of $281.00, and a dividend paid.

The low figure of bad debt and collection losses may be questioned by this Committee as well as others. The Ottawa report shows that, in the period from 1926 to 1935, the bad debt losses were 5.2% on total sales. During this period the losses on credit sales were 13%, and the collection costs were 8.44%. The question now arises, by what magic can co-operatives operate on a bad debt loss of 1% when large and so-called efficient companies have a loss ratio many times higher. I have here a copy of "Business Week" of February 11th, wherein is a story on the Credit Union movement. Credit Unions in the States are shown to have total assets of approximately $116,000,000.00. These organizations are owned and operated by ordinary employees such as stenographers, clerks, bookkeepers, factory workers, mechanics, etc. They handle millions of dollars in loans. The loss through bad debts is shown to be 0.04% on credit extended. I wish to quote from a North Dakota paper the following:

"CO-OPERATIVE FINANCING THROUGH CREDIT UNIONS"

> During the past few weeks four credit unions have been started by Farmers Union members — in Williams County, where the credit union already has over 400 shares subscribed, around Flasher where the Flasher Community Credit Union has been set up, among members and employees of Minot Co-ops, and among patrons of the Farmers Oil Company of Valley City. If interest is evidence of intention to act, many more credit unions to serve Farmers Union members and patrons will be set up before the year is over.
>
> As one illustration of how the credit union aids its members as no other form of credit can, the picture showed a truck driver who had borrowed from the credit union to purchase a truck. He fell ill and could not make the payments. Instead of repossessing the truck as a private finance company would, the credit union hired a driver to keep the truck operating and make the payments.
>
> Within four years 28 credit unions among the farm co-operatives in Ohio accumulated $103,000.00 which has been loaned to farmers for purchase of seeds, feeds, fertilizers, farm implements as well as for larger items of household goods and to meet emergencies."

The farmers of Saskatchewan are no less clever than those who are operating the Credit Unions in Canada and the United States, and can solve their credit problem in the same manner. Again we say, that this cannot be accomplished over night — it will take time.

As an instance of how the Saskatchewan farmer is attempting to solve the credit problem and use his credit collectively to his individual advantage, may I say that our Refinery has inaugurated a system of Co-op. Savings Bonds, whereby the individual takes the money with which he would normally purchase his petroleum supplies for use in spring and summer months, and deposits them with his own organization during the fall and early winter months. The Refinery uses this money wherewith to purchase crude, process and store it for spring requirements. At the present time Consumers' Co-operative Refineries, Limited, have deposits of this kind over $60,000.00.

In the $80.00 figure, shown in the analysis as gross profit, the companies no doubt would show a large proportion for sales promotion and advertising. We showed, in our threshing machine operation illustration, that it would be ridiculous for the two farmers to hire a third party to tell them to use

their own machine. Consequently, in a well-organized and -operated co-operative there is no such thing as sales promotion and advertising. It is not an item in our Refinery picture, it is not an item in our Wholesale Society in distributing to consumers a large volume of coal, twine, etc. Therefore, the largest single item of expense in competitive distribution does not appear at all in co-operative manufacture and distribution.

We indicated previously that competition might be the "big, bad wolf" in the high cost of farm machinery. It is quite often said that competition is the life of trade. It is said so glibly that possibly a great many of us actually believe it. In our present day distribution of commodities, true competition does not exist. The thing which is termed competition actually increases the cost of any given article in the hands of the consumer without adding anything whatever to the utility of that article.

I have said that competition actually increases the cost. Let me take a moment and illustrate how this comes about. Competitive trade spends immense sums in sales promotion and advertising, the sole purpose of which is often to create in the minds of the consumer that some particular article excels all others in terms of usefulness and value. Quite often a manufacturer will actually stress some structural weakness in the machine or article which he is selling, because I know from personal experience as a local machine agent for several years that, enquiring from a customer as to why he bought an opposition machine, he would say because of a certain feature which was many times an actual weakness. As an actual illustration of this nature, we all remember that the early Ford cars had two levers on the quadrant, a spark lever and a gas lever. Later cars removed the spark lever and placed an automatic spark on the distributor. Yet, in face of that, only a few years ago we had an automobile which had a gadget on the dash termed an octane selector, and I know of at least one man who bought an automobile because of an octane selector, which the literature and salesman had informed him would burn various grades of gasoline with efficiency. Perhaps I should tell you what an octane selector is. It is simply highbrow for "spark lever". Then a competitive programme, which actually increases the cost of the commodity, particularly in farm machinery, is the trade-in. Only last week a farmer told me he had been offered $350.00 for a tractor which, in his own opinion, was not worth $100.00. The price of the tractor had been increased to enable the machine agent to go into the farmer's yard to purchase the second-hand tractor with the farmer's own money. The second-hand tractor was, in many cases, not even hauled away.

It is too often taken for granted that competition naturally produces the best article available. This may be partially true, but I want to give you one or two instances where competition, as it exists within various industries, did not produce the best article. The first instance is that of tractor distillate. In a search for a low grade fuel, the Western Canadian farmer asked for distillate. This was not forthcoming by the orthodox oil companies until the co-operatives in this area entered the field and made available this product for use. At a Committee meeting a few days ago, Mr. Graham told you the story of the Ford Motor Company entering the tractor field, and how the I. H. C. had immediately reduced the price of their tractor to meet the Ford. It is true that this is competition, but may I point out that it was not actual competition within the industry as it existed. A careful survey of the "Co-operative Tractor Catalogue", which contains the Nebraska State Tests of all tractors sold on this continent, will reveal that the tractor which has produced the most power on the drawbar, with the least fuel, is the Co-op Tractor, a tractor designed by the American co-operative to distribute to

their members. Orthodox machine companies are now following this lead and making available a tractor of this type after the co-operative has lead the way.

From the above remarks on competition as it exists today, we may with assurance assume that our present competition produces goods from the standpoint of maximum profit and not from the standpoint of maximum utility.

We intimated previously that we would outline some of the factors which enter into a successful co-operative association. In our illustration of the two farmers with their threshing machine, in order to operate this machine successfully, the first thing they must know is how to operate a thresher. This, I think you will agree, is fundamental. It is also fundamental that when individuals decide to co-operate they must know how to operate a co-operative. Successful operation of a co-operative means efficient management, adequate direction, and loyalty of members. By loyalty of members is meant that when the individual decides to co-operate with his neighbours he must view the activity from a long range view. As an example of this, may I instance a Regina farmer who was offered gasoline at 2c below the price he was paying to his co-op. His answer was that he had in the past received a dividend, he had invested some money in his Refinery, and he felt that, in the final analysis, he had been better off within his own organization, and refused to purchase the cut rate product. This attitude must be present to a very great degree in all those individuals who have selected the co-operative movement as a means to improve their economic position. As we progress in the development of this movement, we are realizing more and more, as time goes on, that adequate and efficient management is the keynote of co-operative success.

We wish to very emphatically point out that co-operatives can not be "set up", they cannot be organized from the top down. I think the members of this Legislature have sufficient evidence of this, when only this week the Hon. Mr. Davis introduced the "Co-operative Creamery" Bill, to endeavour to clean up a mess that can only be explained by saying that co-operative facilities were set up ahead of the determination of the individuals to use or patronize them. Again, we have the Co-operative Abattoir in Saskatoon, now closed, a manufacturing plant set up for the processing of meat without any survey as to the genuine co-operative demand for these products. Let me illustrate this in another way. When Christian missionaries went into so-called "heathen" countries, they operated by persuading the natives to adopt Christianity. They did not immediately build churches and assume that the people would fill them. We cannot save souls by building churches, and we cannot solve the economic problems of our consumers by the so-called setting up of co-operatives.

We cannot even assume that our present co-operative members will buy co-operative machinery just because they are co-operatively buying petroleum, coal, and twine, and other products. Let me instance the case of one of our larger petroleum co-operatives, a co-op. which is very successful in its way, having distributed in cash dividends over a short period of years nearly $100,000.00. The Directors of this Association brought in a modern programme of expansion, suggesting that they make available to their members a wider range of bulk commodities. This programme was voted down by the members at their Annual Meeting. This is, of course, an extreme case. Many of the members of our present co-ops are anxious to buy a large proportion of their supplies, including farm machinery. co-operatively. Before we engage in an

active programme of co-operative manufacture and distribution of farm machinery, the demand for co-operative machinery must be more clearly indicated than it is at the present time.

Assuming, therefore, a genuine co-operative demand, and with the knowledge that we can manufacture and distribute machinery at lower cost, let me discuss some of the mechanics before we enter into such a programme. Let me quote from the report of the Federal Trade Commission on the Agricultural Implement and Machine investigation:

"RETAILING BY CO-OPERATIVES"

> "Local farmer co-operatives engaged in retailing farm machinery on the same basis of price and service as so-called 'regular' retail dealers in their particular territories generally have little difficulty in obtaining dealer contracts with large manufacturers. Farmer co-operatives attempting to act merely as purchasing agents for farmers without giving services comparable with those of "regular" dealers, and attempting to pass on directly to purchasers any savings made in the form of cut prices, generally are not regarded by manufacturers as satisfactory dealer outlets. Such co-operatives have difficulty in obtaining dealer contracts, especially with the larger manufacturers.
>
> "Likewise, farmers' co-operatives acting as centralized wholesale purchasing agencies to purchase commodities for retail distribution by local co-operatives, have experienced difficulty in establishing connection, especially with the larger manufacturers. Two reasons are given for this, by both manufacturers and co-operatives, namely: (1) that if the co-operatives were set up as wholesalers they would compete with the manufacturers' own branch houses, and (2) that when the manufacturers sell outright to farmer co-operative wholesale purchasing agencies, all control over subsequent wholesale and retail distribution is lost to the manufacturer. Certain types of local retail co-operatives are regarded by the manufacturers as undesirable because of their price-cutting activities and lack of service facilities, and any part of the distribution of implements by wholesale co-operatives that finds its way through this type of retailer has a disturbing effect upon the manufacturers' relations with regular service dealers with whom the local retail co-operative competes."

It will be seen from this that it will be difficult, if not impossible, for co-operatives to obtain a recognized line of machinery for distribution. The only immediate source of supply would, therefore, seem to be that of the smaller companies, and experience of farm organizations in Saskatchewan has already shown that the distribution of such orphan machines has lead to disaster, and would not receive the support of the farmers. Then again, there is the danger that, should a small machine company's product be marketed and successfully developed, it may be purchased, or its products be absorbed by a larger company. The Central Co-operative Wholesale Association of Superior, Wisconsin, had an experience which is quite illustrative. They distribuited, as a feature line, a certain brand of soap. They developed this into quite some volume, only to find that a large food distributor in the United States had capitalized on their distribution and purchased the supply of the plant.

We wish, therefore, to recommend to this Committee two things which can be done which will speed up to some extent our present programme of manufacture and distribution of farm machinery. First, is the matter of educational and supervisory assistance to organize co-operatives, and in this connection

I wish to give credit where credit is due. Co-operatives in Saskatchewan have been particularly fortunate throughout the years in having the Department of Agriculture very sympathetic to the co-operative movement. The Saskatchewan Department has rendered very sound assistance to co-ops. Throughout the years Dr. F. H. Auld, as deputy minister, has, through the Co-operation and Markets Branch, soundly assisted co-operative development. In later years this Department has been under the supervision of Mr. B. N. Arnason, an enthusiastic and capable worker, who has administered his Department with rare skill. It is a high tribute to our present Minister of Agriculture, Hon. J. G. Taggart, to say that an address he gave before the Co-operative Conference a year or two ago was worthy of publication in several co-operative newspapers. Saskatchewan governmental assistance to co-operatives is mentioned because it stands out in relief by comparison with governmental activities elsewhere.

With other co-operative officials I visited the state capital of North Dakota where, by reason of a long history of left wing governmental activity, one would naturally expect a well-developed Department of Co-operation to exist. It was a surprise to find out that the State of North Dakota has no Government department to assist co-operation. Their service in this respect is limited to the incorporation of organized co-operatives. In the Province of Alberta, an analysis of co-operative activity there will show the folly of a Government's assisting co-operatives in a manner which can be only termed "unsound". The recent report of the Central Co-operative Organization of that province, on sales of nearly $1,000,000.00, returned a lesser dividend to their members than did the Sherwood Co-operative Association, Limited, on sales of $130,000.00. We, therefore, feel that the Saskatchewan programme has been very sound, and we would suggest, as sound assistance to our programme, that the facilities of that Department be doubled, if not trebled, this in order to make the consumers of Saskatchewan conscious that through co-operatives, soundly organized, lies the solution to many of our problems.

I wish now to read from a Co-operative newspaper, printed in United States, the following:

"HOW FSA HELPS FARMERS TO BUILD SOUND CO-OPS"

> "Sound co-operatives, soundly financed and soundly managed, are of benefit to farmers in putting them back on their feet and keeping them there.
>
> "So believes the arm of the federal government whose programme it is to rehabilitate farmers, the Farm Security Administration. So much does the FSA believe that co-operatives of the right kind will be of benefit to farmers that it is willing to loan individual farmers, without cash resources, money to purchase a share of stock in existing co-operatives or in new co-operative associations which it will help to set up."

I would not suggest that the Government of Saskatchewan go so far. I would say, from my own experience, that if the Government, or some other Santa Claus, were to make available one half million dollars to assist co-operatives, I would, as a co-operative official, use my influence to refuse such a sum. I would suggest it would be refused until such time as there are indications that the consumers of Saskatchewan would support a co-operative programme involving that sum. I would suggest, however, that as assistance to our immediate programme the Government could make available a revolving

fund of, say, $50,000.00. This could be used to provide machinery inventory and make available a certain amount of farm machinery, and could also be used in financing a certain amount of credit sales to consumer. I wish it to be clearly understood, however, that this submission is not in any way to be considered as a request for existing co-operatives for financial assistance. Our petroleum and other bulk commodity programme has progressed in a reasonably satisfactory manner without Governmental assistance. It is suggested, however, that some financial assistance be given from the standpoint of speeding up the programme, and second, on the suggestion that it might be good business for a father to give his son a small amount of capital to see how he would use it, whereas the gift of a large sum without the experience of handling it might prove a disaster.

I realize full well, as does every member of this Committee, the pressing need of the problem. The purchasing power of the Saskatchewan farmer during the past number of years has been so low that little or no machinery replacement has taken place. The farmer now finds himself in a position where considerable replacement must take place almost immediately, and the present high cost of farm machinery makes such replacement almost impossible.

I have indicated, at quite some length, the co-operative approach to this programme, and perhaps this submission is somewhat disappointing to those who expected that co-operation was some sort of a magic word which would, over-night, solve the problem. Those of us on whose shoulders has fallen the burden of piloting the co-operative movement realize full well that a sound co-operative programme is not the immediate solution. It is definitely a long term solution. How long, we cannot say. It depends, of course, on the people themselves. Just so soon as the individual consumer determines to purchase his farm machinery co-operatively, we believe that it will be possible to meet that demand.

I wish to thank the Committee very sincerely for the very kind attention that has been given to this long and somewhat rambling exposition of the co-operative approach to this problem. I thank you.

SUBMISSION

of

Mr. George H. Williams, M.L.A.

This Committee recommends:—That the Government set up a Farm Implement Board to become the sole distributing agency for farm machinery in the Province.

And further recommends that a suitable appropriation be made by means of a supplementary estimate to finance the cost of organization of said Board.

The Committee recommends to the Government, that the all-Canadian Company, the Cockshutt Plow, be approached with a view to obtaining a suitable contract for a full line of machinery for this Province, and that, failing a satisfactory agreement being arrived at with that Company, other companies be approached.

The Committee recommends that said contract or contracts provide for a full and suitable line of machinery and repair parts at a cost-plus basis—or—at a substantial discount as against present prices, said line of machinery to be kept up to standard insofar as improvements, etc., are concerned, and to be in every way comparable with machinery offered for sale by other farm implement organizations. In this connection it is recommended that the experimental work carried on by the Farm Management Department of the University of Saskatchewan with respect to testing and devising improvements for farm machinery be extended, in order to provide the Government with adequate information with respect to the development of new types of farm implements.

The contract or contracts should also provide for guarantees of delivery and permanence of supply, and such other safeguards as are deemed necessary and proper.

With respect to retail distribution, the Committee recommends that an effort be made to come to an agreement with Co-operatives to handle the retailing of said farm machinery, and that, failing that, arrangements be made to have the machinery handled through satisfactory farm implement agents.

The Committee recommends that every effort be made to set the cash price at a figure which will encourage a cash retail business in farm implements. It is noted that, in nearly every case, farmers must now pay half cash. It is believed by the Committee that, were sufficient volume made available through one organization, machinery could be sold for cash at a price which would not be more than 20% higher than the amount now paid as half cash, or, in other words, that, with sufficient volume, machinery could be sold for cash at 60% of the present price, giving the farmer a saving of 40% on farm machinery.

It is recognized by the Committee that some credit business will be inevitable. While it is only reasonable that such credit business must carry its own overhead of collection costs and probable bad debt losses, the Committee nevertheless points out, that the credit price must be no greater than the provision of the above insurance against loss necessitates, and should, therefore, be as near the cash price as good business practices will allow.

The Committee has had access to the legal opinion of Law Officers of the Crown, which, we understand, was prepared by Mr. Quigg, under the direction of the Deputy Attorney General, Mr. Blackwood, in which Mr. Quigg in conclusion says:

"With some degree of hesitation I am of the opinion that it would be competent for the provincial Legislature to set up a Board or Agency to be the sole agency through which farm implements could be distributed or marketed in this Province, provided that in such legislation it is made quite clear that the Legislature does not intend thereby to make the law applicable to inter-provincial transactions."

The Committee, having had access to this opinion, realizes that the said Farm Implements Board would in no way constitute a monopoly. That is to say, it would not be expected that the Board could prevent importation of farm machinery into the Province by an individual, or the sale of farm machinery in the province by a company to an individual.

The power the Board would have, would be that of sole operation and control of selling agencies in the Province. It is believed by the Committee that that power is sufficient for its purpose, and would so effectively bulk the sales as to give that guarantee of volume which is necessary to assure reasonable prices in farm machinery.

To insure competitive prices at the lowest possible level the Committee recommends that all sales taxes, all tariff or excise tax, and all dumping duty be removed from farm machinery. The Committee believes that this action will give the Farm Implement Board a much better basis of comparison as to savings which it may effect than does the present price structure, which appears to be dependent upon a variety of fluctuating taxes and duties, as well as upon actual cost of production.

SUBMISSION

of

Mr. O. Demers, M.L.A.

R. T. Graham, Esq., K.C.,
Counsel, Farm Implement Inquiry,
Regina, Saskatchewan.

—*re* FARM IMPLEMENT INQUIRY

Dear Sir:

May I present the following for the Committee's, and your, consideration:

The information secured during the hearings of the inquiry has shown us that there is a possibility of securing reductions in the prices of Farm Implements to the farmers by "mass buying", and also by cash business instead of credit. The Companies who appeared before the Committee did not commit themselves, but more or less expressed the views they might consider propositions along that line.

"Mass buying" can be carried out in two different ways, as far as suggestion to the Committee are concerned:

(1) through a Government controlled Board;

(2) through one or more co-operative organizations.

In my opinion, a third way is also opened for our consideration at this time. That is, a different system of selling and distribution by the present setup of agencies throughout the Province.

I think the inquiry has made it clear to the Committee that the present prices are based on what the Companies term a "List Price". This "List Price" is supposed to be based on a cash basis. In reality, however, this so-called Cash price is inclusive of a percentage of costs for Bad Debts, Collection Charges, etc. It, therefore, is not what is commonly accepted as "Cash Price".

In my opinion, considerable savings could be made if a system of sales and collections was established to take care of that business for all the Implement Companies, instead of each Company carrying its own costs of collecting, etc.

A proper setup by a Finance Company could take care of all Time Sales made by the Implement Companies much cheaper than it is being done at the present time.

Such Finance Company could also take care of the business between the Company and the Agents, who would become "Dealers" instead of "Commission Agents" as they are today.

The Companies could carry stocks in their own warehouses at distribution points, but would be assured of a cash sale when their goods moved out.

Since the actual practice is for the Company to get from 33⅓ to 50% cash on all their sales, this would not have to be materially changed to enable a Finance Company to do business on a sound basis.

I am in favour of co-operative buying and selling, and believe the Government would be well advised to give all the support it can give to such a movement, financially or otherwise.

On the other hand, I realize it will take some considerable length of time to organize such a movement, and, consequently, no material reduction in price may be expected to come from that source until the movement has actually reached considerable proportions.

Immediate steps should be taken by this Committee, and a Board of two or three appointed, and maintained, by the Government, to carry on negotiations with the Implement Companies and Finance Company with a view of arranging a new setup as between the Company and their agents, also a new method of Time sales, which would result in *cash* sales to the Companies.

I am satisfied immediate results would be secured in the way of "special discounts" to the farmers, *meaning considerably lower* prices.

Summing up, I think the net results of such action would mean this:

1st—It would eliminate costs of doing business by centralizing all collections into one channel.

2nd—It would establish a real "Cash Price" for Implements instead of the present "spurious" Cash Price.

3rd—It would not disturb the present business organization which the Companies have built up over a long period of years and which they are not at all prepared to disrupt, as the evidence before the Committee has clearly shown.

4th—It would place the whole structure on a sounder financial basis.

5th—That kind of a system would also assist the Co-operative organizations in doing business, as there is no doubt the Co-operative success or failure will depend largely on their ability to finance their sales.

6th—Although a Co-operative organization may be set up in time to do a large business, there will always be a large number of districts and individuals who will be anxious to purchase a line of implements outside of the Co-operative plan, and those individuals are also entitled to better prices which would be available, in or out of a Co-operative plan, if proper financing arrangements can be made.

7th—Such a system as I advocate would not cause the Companies any difficulties in other Provinces, if the selling price of their implements were on a different scale in Saskatchewan.

Leaving this for your consideration, I am, Sir,

Yours truly,

O. DEMERS.

Regina: THOS. H. MCCONICA, KING'S PRINTER

3-39—957

SELECT SPECIAL COMMITTEE

ON

FARM IMPLEMENT PRICES AND DISTRIBUTION

LIST OF EXHIBITS

Exhibit No.	Nature	By Whom Filed
1.	Order of Reference: Votes and Proceedings No. 12, February 3, 1939.	
2.	Ottawa Committee, 1936; Proceedings and Report.	(Legislative Library)
3.	Ottawa Committee, 1937; Proceedings and Report.	(Legislative Library)
	(A) Ottawa Committee, 1937, Report only.	(Chairman)
4.	United States Report, Federal Trade Commission, 1938.	(Hon. T. C. Davis)
	(A) United States Report, Summary of Part I.	(Mimeographed)
	(B) United States Report, Summary, Completed Report.	(Mimeographed)
5.	Proposed Agenda for Committee	(Mr. R. T. Graham, K.C., Counsel)
6.	Tractor Data, Nebraska Tests.	(Prof. E. A. Hardy, University of Sask.)
7.	"The Tariff", U.F.C. Pamphlet.	(Mr. Geo. F. Edwards)
	(A) The Tariff, Customs Invoice.	(Mr. L. Hantelman, M.L.A.)
	IMPLEMENT DEALERS	
8.	Submission, Retail Merchants Ass'n.	(Mr. W. L. McQuarrie, Secretary)
	(A) Submission, Some Facts *re* Implement Business.	(Mr. W. L. McQuarrie, Secretary)
	(B) Submission, Implement Dealers Section R.M.A.	(Mr. Hamilton, Unity, Sask.)
	(C) Submission, Implement Dealers Section R.M.A.	(Mr. M. J. Culver, Yorkton, Sask.)
	(D) Submission, Implement Dealer.	(Mr. Kenneth C. Pattison, Lorlie, Sask.)
	EXHIBITS FILED BY OR FOR IMPLEMENT COMPANIES	
9.	International Harvester Co., Ltd. Reply to Questionnaire.	
	(A) Annual Report, 1936.	
	(B) Annual Report, 1937.	
	(C) Annual Report, 1938.	
	(D) Price Lists, 1937-38.	(Dr. F. H. Auld)
	Price Lists, 1937-38.	(McCormick-Deering-International)
	(E) Commissions, Cash and Time Sales.	(Mr. A. P. Brown)
	(F) Repair Parts, 1939, Prices and Discounts.	(Mr. A. P. Brown)
	(G) Prices, No. 2, 500-lb. Cream Separator.	(Mr. A. P. Brown)
	(H) Improvements, New Type "E" Binder.	(Mr. A. P. Brown)
	(I) Swathers, Price Increase, July, 1938.	(Mr. A. P. Brown)
10.	Massey-Harris Company, Ltd. Reply to Questionnaire.	
	(A) Prospectus *re* $8,800,000, First (Closed) Mortgage Bonds.	
	(B) Price Lists, Implements and Tractors, 1937-8-9.	
	(C) Price Lists, Tractors and Cream Separators, 1935-9.	
	(D) Dealer Organization in Saskatchewan.	
	(E) Specially Priced Shopworn Machines.	

Exhibit No.	Nature	By Whom Filed
11.	John Deere Plow Company Ltd. Tractor Price Lists, 1937-8-9.	
	(A) Tractor Price Lists, 1935-6.	
	(B) "Bargain" Price List, 1939.	
	(C) Dealer Agencies in Saskatchewan.	
	(D) Retail Price List at Davidson, Sask.	(Mr. Danielson, M.L.A.)
12.	Cockshutt Plow Company Ltd. Price Lists, 1937-8-9.	
13.	Oliver Ltd. Tractor Price Lists, 1937-8-9.	
14.	Minneapolis-Moline Power Implement Co. Tractor Price Lists, 1937-8-9.	
15.	The Albert Olson Co., Ltd. and Caterpillar Tractor Company. Tractor Price Lists, 1937-8-9.	
	CO-OPERATIVE ORGANIZATIONS	
16.	Submission of Mr. H. L. Fowler, February 24, 1939.	
	(A) Submission of Mr. R. McKay, March 3, 1939.	
	(B) Invoice: Sask. Co-op. Wholesale Society from Farmers Union Central Exchange *re* "Co-op" Tractor.	
	(C) Catalogue: Farm Implements. Farmers Union Central Exchange, Minneapolis.	
	DOMINION BUREAU OF STATISTICS, ETC.	
17.	Canadian Agricultural Development: Contribution of Farm Machinery. (Dr. J. F. Booth, Associate Director of Marketing, Agricultural Economics, Department of Agriculture, Ottawa)	
	(A) Price Indices, Farm Implements and Materials.	(Mr. H. F. Greenway, Ottawa)
18.	Comparative Farm Implement Prices, North Dakota and Saskatchewan.	(Prof. Hardy)
19.	John East Iron Works, Saskatoon: Catalogues *re* Parts.	
20.	Fast Tractor Parts & Sales, Saskatoon: Catalogue *re* Repair Parts.	
21.	"Price Comparisons": Publication of Farm Equipment Institute, Chicago, Ills.	
22.	Evidence, transcribed, of Representatives of Major Implement Companies and of Co-operative Organizations.	
23.	Proposal of Mr. O. Demers, M.L.A., *re* "Finance Company".	
24.	Proposal of Mr. G. H. Williams, M.L.A., *re* "Government Board".	
25.	Legal Opinions: *re* Constitutional Aspects of Certain Proposals.	
	(A) Attorney-General's Comment thereon.	
	(B) Judgment *re* Validity of Quebec Price-Fixing Legislation.	
26.	Correspondence *re* Committee Work and Proceedings.	
27.	Original Motions in Committee.	
28.	Notes on Evidence, Day by Day (*Not extended*).	
29.	Minutes of Committee Proceedings.	
30.	Reports of Committee: First Report, Votes and Proceedings, No. 20, February 15, 1939.	
	(A) Final Report: Votes and Proceedings No. 47, March 24, 1939.	
	(B) Final Report: Sessional Paper No. 124.	(Office of Clerk of Legislative Assembly).

WITNESSES

Following is a list of Witnesses appearing before the Committee:

Mr. R. T. Graham, K.C., Swift Current. (Later appointed Counsel for the Committee.)

Prof. E. A. Hardy, Department of Agricultural Engineering, University of Saskatchewan, Saskatoon.

Mr. W. L. McQuarrie, Secretary, Retail Merchants Association of Saskatchewan, Saskatoon.

Mr. H. E. Hamilton, Unity, Saskatchewan, Chairman of Implement Dealers Trade Section of Retail Merchants Association.

Mr. L. Harvey, Assiniboia, Saskatchewan, Implement Dealers Trade Section of R.M.A.

Mr. M. J. Culver, Yorkton, Saskatchewan, Implement Dealers Trade Section of R.M.A.

Mr. Kenneth C. Pattison, Implement Dealer, Lorlie, Saskatchewan.

Mr. H. L. Fowler, Regina, Chairman, Saskatchewan Conference of Co-operative Trading Associations.

Mr. R. McKay, Secretary and Manager, Saskatchewan Co-operative Wholesale Society, Ltd., Saskatoon, Saskatchewan.

Mr. James McCaig, President, Saskatchewan Co-operative Wholesale Society, Ltd., Saskatoon, Saskatchewan.

Mr. F. J. Herscher, Secretary and Manager, Moose Jaw Consumers Co-operative.

Mr. L. A. Thornton, Chairman, Saskatchewan Power Commission.

Mr. John East, John East Iron Works, Saskatoon, Saskatchewan.

Mr. C. H. Richardson, Richardson Road Machinery, Saskatoon, Saskatchewan.

Mr. S. R. M. Dingle, Controller, Massey-Harris Company, Toronto.

Mr. Stewart Lee, Sales Manager, Massey-Harris Company, Toronto.

Mr. W. A. Daly, Regina Manager, Massey-Harris Company.

Mr. George Scott, General Sales Manager, Cockshutt Plow Co., Brantford, Ont.

Mr. W. Mackie, Regina Manager, Cockshutt Plow Co.

Mr. A. P. Brown, Regina Manager, International Harvester Company.

Mr. James Smart, General Manager, Regina, John Deere Plow Co.

Mr. George F. Edwards, Regina, Saskatchewan.

Mr. George Bickerton, President, United Farmers of Canada (Saskatchewan Section).

Mr. B. N. Arnason, Commissioner, Co-operation and Markets Branch, Department of Agriculture, Government of Saskatchewan.